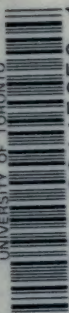
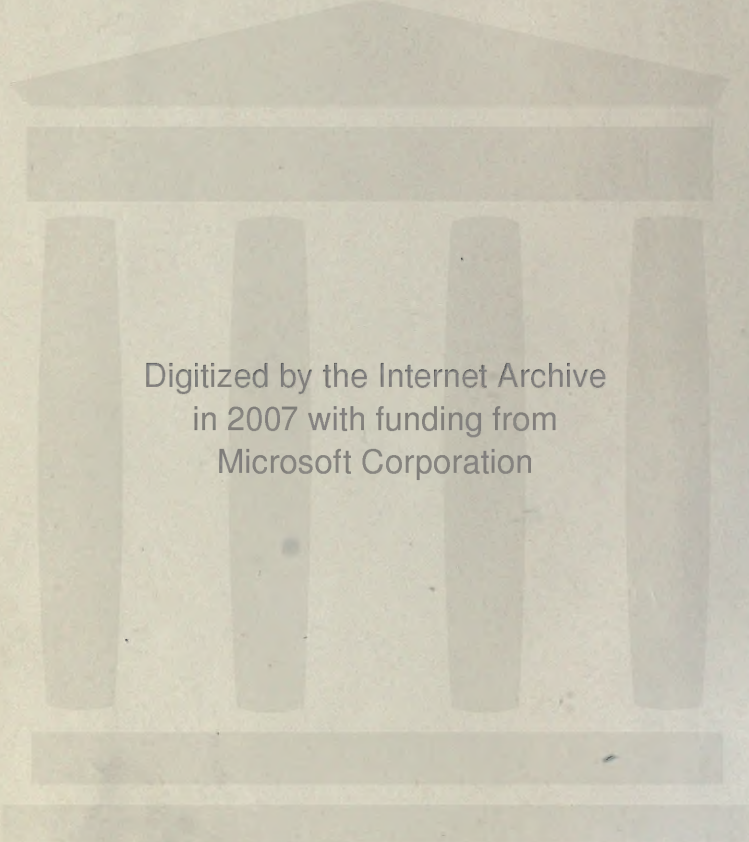


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CENTRAL AND LOCAL FINANCE IN CHINA

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CENTRAL AND LOCAL FINANCE IN CHINA

A Study of the Fiscal Relations between the
Central, the Provincial, and the
Local Governments

BY

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THE FACULTY OF POLITICAL SCIENCE OF
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To

MY FATHER

SHU LING LI

WHO HAS SACRIFICED SO MUCH FOR THE

EDUCATION OF HIS SON

THIS BOOK IS

AFFECTIONATELY DEDICATED

PREFACE

INFLUENCED by the wave of political democracy of the Occident, China is now in the throes of agitation for provincial and local self-government, which is virtually unattainable without separation of the sources of revenue between the Central and the Provincial Governments on the one hand and between the Provincial and the Local Governments on the other. This monograph is the author's humble attempt to solve this urgent politico-fiscal problem which has been absorbing the attention of his conscientious compatriots during the last decade or two.

The monograph is divided into seven chapters. Chapter I deals with the general organization of the different grades of government in China with special emphasis on fiscal administration. Chapter II reviews the past and the present financial relations between the various units of the Chinese polity. Chapter III deals with the attempts at the separation of the local finances from the national finances. Chapter IV reviews cursorily the systems of national and local finance in England, Germany, Japan, and the United States, with a view of adopting the excellencies, and avoiding the demerits, of each. Chapters V and VI constitute the author's views as to what ought to be some fundamental recommendations for the politico-fiscal readjustments between the Central, the Provincial and the Local Governments in China. The last chapter deals with the fiscal relations between the Central Government and the leased territories and the foreign settlements, showing the financial bondage imposed on China by the various treaties.

The author hereby gratefully acknowledges his deep indebtedness to the various authors from whose works he has constantly drawn information and specially to Mr. S. Y. Chia, the chief Financial Advisor to the Chinese Delegation at the Washington Conference, whose work on the Financial History of the Republic is now the standard reference book on Chinese public finance in that language; to Professor Arthur E. Suffern, formerly of Beloit College, who first interested him in the study of Economics in general and that of Public Finance in particular; to Mrs. Arthur E. Suffern and Professor and Mrs. J. F. Crawford, also of Beloit College, who were kind enough to improve the literary quality of this monograph; to Professor Jacob Viner of the University of Chicago who first suggested the topic for the author's Master's dissertation in that institution; and above all, to Professor Edwin R. A. Seligman, McVickar Professor of Political Economy in Columbia University, under whose constant guidance, encouragement, inspiration, and sound teaching, this monograph has been able to attain its present form and scientific quality.

The author also wishes to express his further gratitude to Professor Seligman for proof-reading.

CHUAN SHIH LI.

COLUMBIA UNIVERSITY, MAY, 1922.

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CHAPTER I

THE GENERAL ORGANIZATION OF THE CENTRAL, THE PROVINCIAL AND THE LOCAL GOVERNMENTS IN CHINA BEFORE AND AFTER 1912, WITH SPECIAL EMPHASIS ON THEIR FISCAL FEATURES

GOVERNMENT finance is inseparably connected with governmental structure and organization. In order to understand the fiscal relations between the different governing bodies in China, their structure and organization must first be studied.

Before 1912, the year of the establishment of the republican form of government, China had always been an absolute monarchy, autocratic and despotic; and it was supposed to be thoroughly centralized.¹ The whole empire was divided into three dependencies and twenty-two provinces. The former were Mongolia, Tibet, and Ching-Hai or Kokonor, the land of the Kalmuck Mongols. The latter included Manchuria or the Eastern Three Provinces, the province of Sinkiang or the Chinese Turkestan, and China Proper or the eighteen provinces.

¹ This description of political China before 1912 must not be construed too literally. For, like political Great Britain, the form of the then Chinese government was without a name. Mr. A. R. Colquhoun, the once famous correspondent of the *London Times*, has well said:

"If we call it a despotism, we are confronted with facts which would show it to be the most democratic polity extant, and if we call the Empire a federation of independent states, we are met by the absolute power vested in the Throne to remove the provincial governors at pleasure." (*China in Transformation*, 1899, p. 170.)

The Emperor was the chief executive of the nation, governing the Celestial Empire by the Divine Will. He was the Son of Heaven (*Tien Tze*) to whose hands was entrusted the titanic task of ministering to the general welfare of the teeming millions of the divine image. Immediately under him were two councils. The one was called the *Chun Chi Ch'u* or the Grand Council of State. It was virtually, though not technically, the highest central establishment, being in charge of the government of the empire and was established out of the Grand Secretariat or *Nei Ko* about 1730 A. D. during the reign of *Yung Ching* (1722-1735). It was originally a Military Council (the Committee on National Defense or the Board of Strategy) in which the first Emperor of the *Tsing* Dynasty discussed state affairs. Having become the Privy Council of the Emperor, most decrees were issued from this establishment, as well as orders concerning state administration. Its members were usually five in number, all appointed by the Emperor. They were called Grand Councillors. Two were Manchus, two Chinese, and one of the Princes of the royal blood officiated as President. These Grand Councillors were usually recruited from the ranks of officials of the grade of Minister of State or Vice-Minister of State and they usually held substantive posts other than in the Council. Their duties were described as being "to write imperial edicts and decisions, and to determine such things as are of importance to the army and nation, in order to aid the sovereign in regulating the machinery of affairs". "At an hour in the morning when the capitals of Europe are wrapped in slumber, the members of the *Chun Chi Ch'u* meet in the Forbidden Palace and discuss in the presence of the Son of Heaven, all affairs of state, from the most important imperial concerns down to the promotion and degradation of mandarins of the lowest ranks. When a

matter of ordinary administration is decided, the minute embodying the decision is forwarded to the *Nei Ko* for promulgation, while others demanding secrecy are entrusted to the Board of War for execution."¹

As referred to above, the other council was *Nei Ko*, literally the Inner Cabinet, or the Grand Secretariat. It was technically the highest government establishment, having been created in the *Ming* Dynasty (1368-1644). Before the establishment of the Grand Council of State, early in the eighteenth century, the duties of the Grand Secretariat included the preliminary examination of reports from the Provincial Authorities, the making of recommendations as to these before presentation to the Emperor, and the composition and promulgation of imperial decrees. Since then, its duties have been, for the most part, of a purely negative character, consisting in promulgating edicts and in keeping state papers. This Imperial Chancery was composed of four Grand Secretaries or *Ta Hsueh Shih*, two being Manchus and two Chinese, and two Assistant Grand Secretaries, one being Manchu and one Chinese, who were usually also members of the Council of State, Ministers of State or Assistant Ministers of State.²

Next in importance to the two councils were the six boards: namely, the Board of Revenue,³ the Board of Rites,

¹ R. K. Douglas, *Society in China*, 1901, p. 42.

² Cf. R. K. Douglas, *op. cit.*, p. 42.

³ In Chinese it is called *Hu-pu* whose literary designation was *Nung-pu* or the Board of Agriculture and *Ming-pu* or the Board of People, for in ancient China, as elsewhere, the government revenue was inseparately connected with the land, and hence agriculture and people. In the *Hsia* and *Yin* Dynasties (2207-1767, 1766-1122 B. C.), its president was called *Ta-shih-tu*, and its vice-president, *Shao-shih-tu*. In the *Chou* Dynasty (1122-249 B. C.), the former was called *Ti-kuan* or the Land Official. (Brunnert, *Present Political Organization of China*, 1910, pp. 118-9.)

the Board of Civil Service, the Board of Punishments, the Board of Works, and the Board of War.

The detailed organization of the boards other than that of revenue is immaterial for our purpose here.

The Board of Revenue was presided over by two presidents or *Shangshu*, one Chinese and one Manchu, each with the same authority. Under the presidents were four vice-presidents or *Shih-lang*, two Chinese and two Manchus. The board was divided into fourteen subordinate departments named after the provinces and corresponding to the number of governors-general and governors, five of which had charge of more than one province, and each of which had two or three directors or *Land-chung*, from three to six sub-directors or *Yuan-wai-lang* and two or three assistants or *Chou-shih* to the sub-directors. These fourteen departments attended to the receipt of the revenue from each of the provinces each department corresponding with the treasury department in its respective province. Since the revenue was paid in sundry ways and articles, such as money, grain, manufactures, etc., the receipt and distribution of the various articles required a large force of assistants.¹ The offices of the directors, the sub-directors, and the assistants were also equally distributed among the Chinese and Manchus with an occasional exception in favor of the Manchus. The fourteen departments, with their respective powers and duties, were as follows:²

1. The department of Kiangnan:

- (a) To audit the accounts of the land tax of the provinces of Kiangsu and Anhui and the accounts of the government silk manufactories in the city of Nanking and in the city of Soochow, and

¹ S. W. Williams, *The Middle Kingdom*, revised edition, 1901, vol. i, p. 423.

² S. K. Chen, *The System of Taxation in China in the Tsing Dynasty*, pp. 16-19.

- (b) To prepare the annual reports concerning the amount of the balance charge of the land tax in certain provinces due to the loss incurred in inaccurate weighing of the specie or the tax in kind and concerning the amount of the arrears of the land tax in all the provinces.
- 2. The department of Chekiang:
 - (a) To audit the accounts of the land tax of the province of Chekiang and the accounts of the government silk manufactories in the city of Hangchow, and
 - (b) To prepare annual reports concerning the population of the empire and the quantity of the grain produce in all the provinces.
- 3. The department of Kiangsi:
 - (a) To audit the accounts of the land tax of the province of Kiangsi, and
 - (b) To report on the inter-provincial support for their military expenses.
- 4. The department of Fukien:
 - (a) To audit the accounts of the customs duties of the commodities carried in the native sailing vessels to the city of Tientsin,
 - (b) To audit the accounts of the land tax of the provinces of Fukien and Chihli, and
 - (c) To audit the accounts of certain unprescribed expenses drawn from the treasury of the Board of Revenue.
- 5. The department of Hu-kuang:
 - (a) To audit the accounts of the land tax of the provinces of Hupeh and Hunan,
 - (b) To audit the accounts of the regular or inland customs revenues from within the province of Hupeh, and
 - (c) To audit the accounts of the local surtaxes on land, commodities, salt, and tea in all the provinces.

6. The department of Shantung:

- (a) To audit the accounts of the land tax of the province of Shantung and of the Eastern Three Provinces (Fengtien, Kirin, and Heilungkiang),
- (b) To pay the bonus to the military officers of the "Eight-Banners,"¹ and
- (c) To control the salt and ginseng monopolies.

7. The department of Shansi:

- (a) To audit the accounts of the land tax of the province of Shansi.

8. The department of Shensi:

- (a) To audit the accounts of the land tax of the provinces of Shensi, Kiangsu, and Sinkiang,
- (b) To control the tea monopoly, and
- (c) To care for the disbursements of the imperial administration.

9. The department of Honan:

- (a) To audit the accounts of the land tax of the province of Honan,
- (b) To audit the accounts of the military expenses of the city of Sahara in Mongolia,
- (c) To investigate any report as ordered by the emperor, and
- (d) To urge revision of the provincial reports on any kind of outlay not accepted by the Board of Revenue.

10. The department of Szechuan:

- (a) To audit the accounts of the land tax and of the regular or inland customs duties of the province of Szechuan, and
- (b) To collect reports on the conditions of crops in all the provinces.

¹ Meaning the Manchu soldiers classified into eight groups according to four colors (yellow, white, blue, and red), each color being differentiated into the pure and the mixed, thus making eight altogether.

11. The department of Kuangtung:
 - (a) To audit the accounts of the land tax of the province of Kuangtung.
12. The department of Kuangsi:
 - (a) To audit the accounts of the land tax and of the regular customs revenues of the province of Kuangsi,
 - (b) To regulate mining enterprises, and
 - (c) To regulate coinage.
13. The department of Yunnan:
 - (a) To audit the accounts of the land tax of the province of Yunnan,
 - (b) To report on the collection of the mining royalty in the same province, and
 - (c) To care for the transportation of the grain tributes from certain provinces to Peking.
14. The department of Kweichow:
 - (a) To audit the accounts of the land tax of the province of Kweichow, and
 - (b) To supervise the administration of both the regular and the maritime customs in the empire.

Beside the above mentioned fourteen departments, there were three treasuries, one for specie, one for satin, and the third for sundry articles, such as dye-stuffs and stationery; four mints; sixteen granaries; a committee of appropriation; and a committee of cash payment for the soldiers of the "Eight Banners". A bureau of currency was in charge of the mints; and a bureau of grain tribute, of the sixteen granaries. The three treasuries composed another bureau which was called the "Great Ministers of the Three Treasuries."¹ There was one superintendent for each granary. Fourteen granaries were in Peking; and two in Tungchow.

¹ S. W. Williams, *op. cit.*, p. 423.

To summarize the functions of the Board of Revenue, it might be characterized by stating that it had supervision and control of revenues and expenditures of the whole empire, that it authorized the levy of taxes and duties, that it apportioned the levies among the provinces and among the districts within each province, that it authorized the measurement of all the lands in the empire, and that it controlled the receipts and disbursements of the granaries and the treasuries. The board was moreover a court of appeal on disputes respecting property and superintended the mint of each province.

So much for the principal organs of the central administration. The minor establishments, such as the Court of the Royal Household Affairs, the Court of Colonies or Dependencies, the Court of Imperial Sacrifice, the Court of Ceremonies, the Court of Imperial Entertainment, the National Academy, etc., were many and insignificant. One establishment, however, deserves our attention, namely, the Censorate or the Court of Censors (*Tu-chia Yuan*). It performed the important function of restraining the unscrupulous conduct of the high functionaries in Peking as well as in the provinces—nay, it even had the power of memorializing the emperor himself about his negligences as a supreme ruler.¹ Thus some of the most important functions of the legislature, such as interpellation and impeachment not infrequently exercised by the occidental parliament or congress, were performed by this institution. It was composed of a body of men, fifty-six in number, of whom forty-four were provincial censors the remainder being in charge either of the metropolitan district (Peking and its suburbs) or of the Manchurian district. No doubt they exercised a restraining influence in all the financial

¹ The censorate institution in China could be traced back to the *Chin* Dynasty or two centuries B. C. (Brunnert, *op. cit.*, p. 75.)

transactions of the central as well as the provincial authorities.

Had China not come into contact with the Western world with its tradition of change and innovation, the above outlined general organization of the central administration of China might have remained unaltered up to the present. After the Opium War (July 7, 1839-August 29, 1842) and the war against England and France (1857-1860), China discovered that some sort of foreign office was necessary, and so the *Tsung-li Yamen* was created by an imperial decree in January, 1861. Realizing the increasing trade relations between China and the foreign countries, a Superintendent of trade was installed in 1870. Lamenting the utter naval impotence of the Empire, Li Hung-chang, the well-known grand old man of China, created and organized a navy under his own direction. In 1890 a Board of Admiralty was created in order to take the naval control out of the hands of the then suspected statesman.

Being defeated by Japan in 1895, the wave for reform in China gained further strength; but was checked by the reaction of a powerful wing of the Manchu Royal family who were aroused by the so-called "battle of concessions" of 1898, waged on the soil of China among the greedy European Powers. This reaction against reform and foreign aggression found its outlet in the famous Boxer Uprising in 1900. *Tsung-li Yamen*, being something like a subcommittee of the Grand Council of State, was no longer adequate to cope with the new situation in which China found herself after that regrettable event. So, in 1901, *Tsung-li Yamen* was abolished and instead, a Board of Foreign Affairs or *Wai-wu Pu* was instituted.¹

In the same year, a Committee on Government Affairs

¹ H. B. Morse, *The Trade and Administration of the Chinese Empire*, 3d ed., 1920, pp. 43-4.

known as *Cheng-wu Ch'u* was created from among the two executive councils to examine the reports and memorials dealing with reforms, coming either from the officials or from the people. Through its recommendation, a Board of Commerce or *Shang Pu* was instituted in 1903, to take the place of the superintendent of trade. In the same year, realizing the importance of education in moulding the future destiny of the nation, a Board of Education or *Hsueh Pu* was also created.

In 1905, the Committee on Government Affairs was re-organized and renamed the Committee of Ministers or *Nei Ko Hui Yi Cheng Wu Ch'u* whose members were composed of the Grand Secretaries, the Assistant Grand Secretaries, the President of the Council of State and the Ministers of the different boards, both old and new.

Another committee of importance was simultaneously created to investigate the principles of modern politics and government and to draw up regulations for a constitutional government for China. This committee was known as the Committee on Investigation of Modern Politics and Government or *Cheng-chih K'ou Cha Kuen*.

On November 6, 1906, an imperial edict on the reorganization of the central administration was issued. The edict retained the Council of State; left the Board of Foreign Affairs, the Board of Civil Service, and the Board of Education as they stood; amalgamated the Board of Army Reorganization, the Court of Imperial Stud, the Board of Admiralty, and the General Staff with the Board of War which was now renamed *Lu-chun Pu* or the Board of Army; renamed the Board of Punishments (*Yin Pu*) the Board of Justice (*Fa Pu*); renamed the the Grand Court of Revision (*Ta-li Shih*) the Court of Cassation (*Ta-li Yuan*); amalgamated the Board of Works with the Board of Commerce under the title of *Nung-kung-shang Pu* or the

Board of Agriculture, Industry, and Commerce; created the Board of Posts and Communications or *Yu-chuan Pu* to take charge of the affairs relating to steamships, railways, telegraphs, and postal administration; renamed the Court of Colonies or Dependencies (*Li-fan Yuan*) the Board of Colonies or *Li-fan Pu*; simplified the organization of the censorate; promised to convene the Government Council or the National Assembly and to establish the Court of Auditors; renamed the Board of Constabulary the Board of Civil Administration or the Interior or *Ming-cheng Pu* to take charge of the local self-government, census-taking, sanitation, etc.; amalgamated the Court of Imperial Sacrifice, that of Imperial Entertainments, and that of Ceremonies with the Board of Rites; and above all, for our purpose here, renamed the Board of Revenue (*Hu Pu*) the Board of Finance (*Tu-chih Pu*) in which the Council of Finance or *Tsai-cheng Ch'u* was included.¹

The Board of Revenue was not only renamed, but also substantially reorganized. Its powers were enlarged so as to include the arrangement of state loans, the control of banks and the other financial institutions, etc. Instead of the territorial division of functions among the former fourteen departments of the board, its internal organization, since April 26, 1907, was based upon the principle of functional division. Its organs and their functions were as follows:²

1. The Council or *Tsen-cheng Ting*. Its duties were to supervise the most important financial questions and to translate the financial regulations of foreign powers as well as works on Political Economy.
2. The Secretarial Office or *Tsan-yi Ting*. Its duties were

¹ Brunnert, *op. cit.*, pp. 97-8; see also A. Maybon, *La Politique Chinoise*, 1908, pp. 250-51.

² Brunnert, *op. cit.*, pp. 119-21.

to compile the reports to the emperor, to draft the despatches, and to frame rules and regulations.

3. The Bureau of Land Taxes or *Tien-fu Sze*. It was put in charge of the levy and collection of land taxes, the exemption from or the postponement of payment of these taxes, and the colonization of the uncultivated lands, etc.
4. The Bureau of Tithes or *Tsao-chang Sze*. It was put in charge of the control of the grain tributes, their storage in the metropolitan and provincial granaries, their distribution to the people in time of need, and their payment in money instead of in kind.
5. The Bureau of Duties or *Shui-ko Sze*. It had supervision of the income and expenditure of the native and the maritime customs, customs duties, excise on opium and wine, likin, duties leviable on mechanical and manufactured goods, stamp taxes or duties, granting of customs certificates, etc.
6. The Bureau of Excise or *Kuen-ko Sze*. It had the charge of the excise on salt, tea, and native opium, and the consolidation of measures for the monopoly of the last mentioned article, etc.
7. The Bureau of Currency or *Tung-fu Sze*. It superintended the provision of gold, silver, copper and tin for currency and the conversion of the bullion into coin, the making and printing of bank notes, the framing of regulations concerning the organization of banks and mints, and the maintenance of a sufficient supply of currency in circulation.
8. The Bureau of State Treasury of *Ku-chang Sze*. It had the power to supervise the income and expenditure of the State Treasury, to scrutinize the financial reports from the provinces as well as those from the imperial silk manufactories in Kiangsu and Chekiang provinces, and to reorganize provincial treasuries, etc.
9. The Bureau of Emoluments or *Lien-fung Sze*. It had

the charge of the payment of salaries and allowances to officials and princes and the issue of allowances to the Banner-men.

10. The Bureau of Military Supplies or *Chun-hsiang Sze*. It superintended the distribution of supplies to the military and naval forces of the empire.
11. The Bureau of Expenditure or *Chih-yung Sze*. It regulated the expenditure of funds provided by the province for use in the capital, as well as the expenditure on buildings, railways, mines, telegraphs and postal administration.
12. The Bureau of Accounts or *Kwai-chi Sze*. It had the power to audit the income and expenditure of the State Treasury, to prepare the budget, to determine the extraordinary expenditure, to revise accounts, etc.
13. The Statistics Bureau or *Tung-chi Ch'u*. Its duties are self-explanatory.
14. The Registry or *Hsu-fa-chi-cha Ch'u*. It was in charge of the reception of the incoming and issue of the outgoing despatches, of looking after the matters of economy, and of keeping the correspondence with other establishments. It also controlled several other bureaus of the board.
15. The State Treasury or *King-ning Ku* where the funds, currency, bullion, and bank notes were stored.
16. The Coinage Office.
17. The Government Printing Office.
18. The Government Paper Mill.

Closely connected with the Board of Finance in general and with the Bureau of Duties in particular though somewhat independent of them, was the Commission on Customs Control or *Shui-wu Ch'u*. This commission came into existence in 1909 in accordance with an imperial edict dated May 9, 1906, purporting, among other things, to control all customs affairs in the Empire in order to ensure uni-

formity of power. This commission still exists and controls all the Chinese and foreign employees of the Customs.

The administrative reorganization of 1906 soon proved to be inadequate to meet the new situation. Another imperial decree was issued on May 8, 1911, about three months before the outbreak of the Revolution. It abolished the Nei Ko or the Grand Secretariat, and substituted the *Pi-teh Yuan* or Privy Council to which the emperor could turn for advice on various affairs of government.¹ It also abolished the Committee of Ministers.² Instead, the cabinet system was adopted. The cabinet was to be composed of (1) the Prime Minister or the President of the cabinet, (2) the two Vice-Presidents of the cabinet, (3) the Minister of Foreign Affairs, (4) the Minister of the Interior, (5) the Minister of Finance, (6) the Minister of Education, (7) the Minister of War, (8) the Minister of Navy,³ (9) the Minister of Justice, (10) the Minister of Agriculture, Industry and Commerce, (11) the Minister of Posts and Communication, and (12) the Minister of Colonies or Dependencies. They were the emperor's nearest assistants in the government of the Empire, especially the Prime Minister who had personal access to the throne, if occasion demanded it.

The questions coming within the scope of the cabinet were as follows:

- (1) Codes of laws, official systems, edicts and imperial commands.

¹ Brunnert, *op. cit.*, p. 525.

² The Grand Council was abolished in August, 1910. (C. H. Kuo, *History of the Provisional Government of the Republic of China*, 1917, p. 10.)

³ The Board of Navy was created in August, 1910, together with the General Staff out of the Board of Army. (C. H. Kuo, *op. cit.*, p. 10.)

- (2) Estimates and the budget.
- (3) Extraordinary expenditure.
- (4) Treaties and important diplomatic negotiations.
- (5) The promotion and degradation of officials holding posts to which appointment was made by imperial edict.
- (6) Disputes between Ministers with regard to authority.
- (7) Matters referred to the cabinet by edicts and requests and petitions from the people, submitted through the National Assembly.
- (8) Important administrative affairs of the various ministries.
- (9) Matters which by law must be transmitted to the cabinet.
- (10) Matters which the Prime Minister or a Minister of a Ministry concerned considered such as should be discussed by the cabinet.

Such were the central administrative and fiscal systems before and after the reorganization prior to the advent of the new-born republic. They may be characterized as a typical example of the check-and-balance system in government. From the heads or presidents of the Board of Revenue—and, in fact, of every board—to the subdirectors of the departments, bureaus, or offices, there was everywhere a system of check and balance between the Chinese and the Manchus, resulting in lack of coordination between the departments, bureaus, or offices, inconsistency in fiscal policies, and, therefore, confusion of taxation in the different provinces. It may be further noticed that in the functions of the fourteen departments, there abounded such words as “audit”, “control”, “supervise”, “care for”, “regulate”, “investigate”, and “urge revision”. As a matter of fact, the central control and supervision over the pro-

vincial finances was only nominal and superficial, largely due to the vast extent of the country and to the lack of adequate means of communication and transportation.

After the administrative reorganization of 1906, there was accomplished some centralization of authority. The check-and-balance system between the Chinese and the Manchus was done away with, although the portfolios of the ministry were equally distributed between the Chinese and the Manchus who usually had the first choice of the more fat and important ones. The functional consolidation over against the former territorial diffusion particularly deserves our attention. The defect lay rather in the fact that the functional consolidation did go far enough. Take the Board of Finance for example. The Bureau of Land Taxes, that of Tithes, that of Duties, and that of Excise could be combined into one bureau, inasmuch as they all dealt with one function, taxation. So it was with the Secretarial Office and Registry. The Coinage Office should be combined with the Bureau of Currency. The Bureau of Emoluments, that of Military Supplies, and that of Expenditure should be amalgamated into one Bureau of payments under the direction of a paymaster-general. And so it was with the Bureau of State Treasury and that of Accounts; the latter should absorb the former. Furthermore, one important function of a modern state was not even mentioned, public credit. The bureau of loans was not in existence until the republican era. As regards the central control of the provincial finances, the Bureau of Land Taxes, that of Tithes, and that of State Treasury all had their role to play, especially the last mentioned. The Bureau of State Treasury was empowered to "scrutinize the financial reports from the province . . . and to reorganize provincial treasuries, etc." That power, however, as was the case with the fourteen departments of the Board of

Revenue before the administrative reorganization of 1906, existed in name only, inasmuch as the central exchequer for obvious reasons never was able to exert much influence on the provincial authorities during the Tsing Dynasty.

This brings us to a discussion of the provincial and local political organizations of the Chinese Empire before the establishment of the republic in 1912.

The chief executive of a province was the governor appointed by the emperor. His powers varied, depending upon the circumstances. In absence of the viceroy or the governor-general (*Chung tuh* or *Chih-tai*) who was also appointed by the emperor and who controlled all provincial affairs, both civil and military,¹ the governor was as powerful as the viceroy. The Chancery of the governor (or the governor-general when he was concurrently the governor of a province) was composed of ten bureaus:² Bureau of Foreign Affairs, Bureau of Civil Affairs, Bureau of Military Affairs, Bureau of Finance, Bureau of Education, Bureau of Ceremonies, Bureau of Personnel, Bureau of Justice, Bureau of Agriculture, Industry and Commerce, and Bureau of Posts and Communications. These ten bureaus were evidently modeled upon the central administrative reorganization. Under the governor's direct control were the six provincial departments: namely, the civil department headed by a civil commissioner or *Pu-cheng Sze*; the judicial department headed by a judicial commissioner or *An-cha Sze*; ³ the educational department headed by an educational commissioner or *Ti-Hsueh Sze*; the gabelle de-

¹ He was, *ex officio*, a President of the Board of War and an Associate President of the Censorate. The Ming dynasty commenced to appoint this official over the empire for itineracy. (Brunnert, *op. cit.*, pp. 396-8.)

² Brunnert, *op. cit.*, p. 402.

³ The judicial commissioner also controlled the official couriers who existed long before the introduction of the modern postal system.

partment headed by a salt commissioner or *Yen-yun Sze*; the commissariat headed by a commissioner of grain tributes or *Liang-tao*; and the excise department headed by a customs commissioner or *Kwan-tao* who was in charge of the regular or inland customs only and had no jurisdiction over the maritime customs.

The Committee of Reorganization or *Shan-hou Ku*, a deliberating and executive board of provincial government, was made up of three commissioners: namely the civil commissioner, the judicial commissioner, and the salt commissioner.¹ The governor usually sought their advice.

Of these six departments, we are here chiefly interested in the civil and the commissariat.

The civil department was under the control of the civil commissioner who had the charge of the civil service as well as the financial administration of the province, and on account of the predominance of the latter duties he had been called the provincial treasurer. He had charge of the collection and disbursement of the provincial revenues. But his most important duties were the supervision of the collection of the land tax, for the collection of other important revenues was placed under separate officers. The collection of the gabelle was under the control of the salt commissioner and that of the native customs² under the customs commissioner. The grain tribute, which . . . is a part of the land tax, was also placed under the charge of a separate official called the grain commissioner.³

¹ H. B. Morse, *op. cit.*, p. 51.

² The native customs means the regular or inland customs. "The customs excise are under the management of different grades of officers according to the importance of their posts. The transit duties levied at the excise stations placed in every town are collected by officers acting under the local authorities." (S. W. Williams, *op. cit.*, p. 444.)

³ H. L. Huang, *The Land Tax in China*, p. 112.

In spite of all these limitations, the civil commissioner occupied a unique position in the provincial fiscal system of the Chinese Empire.

He was responsible, in the first place, to the department of the Board of Revenue, which department bore the name of his province, for the collection and remittance of the quota of revenue assigned to his province. In the second place, he was held liable by the governor for the expenditures of the provincial government. In the third place, he regulated and supervised the actual collection of the land tax by the district magistrate.¹

He also compiled the decennial census for the Board of Revenue.²

The grain commissioner or commissariat was usually equal in rank to the provincial treasurer (or the civil commissioner). Of the eighteen provinces, there were twelve that had grain commissioners, the provincial treasurers attending to this duty in the other six. These commissioners had charge of the collection of the grain tributes collected whether in kind or commuted. For the eight provinces which paid the tribute in kind before the Taiping Rebellion there was also a grain governor (or *Tsung tuh*) who was equal in rank to the governor-general. He supervised the transportation and disposal of the grain collected in the eight provinces which are all adjacent to the Yangtze River. The actual collection of grain from the farmers was in the hands of the prefects and the district magistrates.³

The minor civil divisions of a province have now to be dealt with. Within each province there were several circuits or *Tao* which were not administrative areas. In each

¹ H. L. Huang, *op. cit.*, p. 113.

² Leong and Tao, *Village and Town Life in China*, 1915, p. 47.

³ H. L. Huang, *op. cit.*, p. 113.

circuit there was a circuit governor or intendant (or *Tao tai*) who was more concerned with military affairs than with civil, and acted as a connecting link between the civil officials and the military officers. The circuit governor also transacted the judicial business in his circuit.¹ He was appointed by the emperor upon recommendation of the provincial civil commissioner and the governor or the governor-general.

Within each circuit there were several *Fu* or prefectures.² The Chinese prefecture should not be confused with the French prefecture. A Chinese *Fu* was not a French department. The latter is an administrative unit, while the former was, like the French *arrondissement*, more a channel of communication than an administrative unit. An *arrondissement* has the function of allotting among the communes their quota of the national and departmental taxes assigned to it by the general council of the department. A Chinese *Fu* had not even that duty.³ In short, a Chinese prefecture dealt more with the external relations of the unit than with its internal administration.⁴ The prefect was appointed in a manner similar to that of the *Tao-tai*.

¹ There were two kinds of intendant, the travelling and the standing. The former was appointed to look after certain special affairs, such as the salt monopoly, the foreign trade, the corn transportation, the waterways inspection, and the like. The latter was a regular appointee and is referred to in this chapter. (Leong and Tao, *op. cit.*, p. 48.)

² A circuit usually had jurisdiction over two or three prefectures, one or two prefectures and an independent department or an independent sub-prefecture. The whole Empire included 214 Prefectures, 75 Independent Departments, 54 Independent Sub-prefectures, 139 Departments, 57 Sub-prefectures, and 1,381 districts. (Brunnert, *op. cit.*, p. 426.)

³ "According to the traditional theory, his (the prefect's) business is restricted to the works of the waterways, agriculture, and horse-breeding, transport of corn, farming by the soldiers, and the general administration. But his functions are in reality much lighter, as in most cases he has magistrates to share his work." (Leong and Tao, *op. cit.*, pp. 48-9.)

⁴ H. L. Huang, *op. cit.*, pp. 115-6.

Similar to *Fu* were the *Ting* or the Independent Departments and the *Chow* or the Independent Sub-prefectures. The independent department (*Chihli Ting*) was usually smaller than a *Fu* and was governed, like the latter, by an official called *Tung chih* (Co-knower) directly under the control of the governor of the province. The dependent department or the mere *Ting* was generally smaller than the independent *Ting* and was governed by an official called *Chih ting* (Knower of *Ting*), who, like the district magistrate, was under the direction and supervision of the prefect, inasmuch as dependent *Ting* formed part of a *Fu*. The independent sub-prefecture (*Chihli Chow*) was a civil division very similar to an independent *Ting*, entirely independent of a *Fu* and was governed by an official also called *Tung chih*. The dependent sub-prefecture or the mere sub-prefecture (*Chow*) formed, like the dependent *Ting*, part of a *Fu* and its governor, *Chih Chow*, the knower of the dependent *Chow*, was, like the *Chih-ting*, under the jurisdiction of the prefect. The difference between the independent *Ting* and the independent *Chow* was that the former was governed more like a *Fu* than the latter; but there was no real difference between the dependent *Ting* and the dependent *Chow*, inasmuch as they closely resembled the *Hsien* or district which we shall soon discuss. The Co-knower either for the independent *Ting* or for the independent *Chow* was appointed in the same manner as the prefect. The Knower either for the dependent *Ting* or for the dependent *Chow* was appointed through a process similar to that of district magistrate.

The most important unit of local government in China was and still is the *Hsien* or district. It might be a division of a *Fu*, an independent *Ting*, or an independent *Chow*. In size it was like the French department, the English administrative county, or the American self-governing

county. In function it bore more resemblance to the French commune, the English borough, or the American city than to the department, the administrative county, or the self-governing county. "As the commune is the oldest unit of local government in France, so is *Hsien* in China. It has a very ancient origin, some writers believing it to be at least two thousand years old."¹

The *Hsien* was, and still is, the political, judicial, and fiscal unit of the government of the Chinese nation. The district magistrate or *Chih-hsien* (the knower of the district) had many duties. He was at once the legislator, the administrator, and the justice of peace of his district. He had charge of the collection of the land tax and the grain tribute, hence he was responsible both to the provincial treasurer or civil commissioner and to the commissariat. In fact, so far as financial connections were concerned, he might be compared to the *Tresoriers-payeurs-généraux* of the French departments.

He kept a complete record of lands within his jurisdiction and was the custodian of the taxes, and he was responsible to the provincial treasurer for the collection of the amount of taxes assigned to his district and might be cashiered for failure to collect the required amount. He was also the register of the deeds of his district.²

A *Hsien* was usually subdivided into several *Sze* or *Hsiang* or divisions. These parts of a district, called *Sze*, *Hsiang*, or whatnot, were placed under the control of *Suin-kien Sze*, circuit-restrainers or hundreds, who formed the last in the regular series of descending rank—the last of the "commissioned officers," if you will, in the rather com-

¹ E. H. Parker, *China, Her Diplomacy, History, and Commerce*, 2nd. ed., 1917, p. 184.

² H. L. Huang, *op. cit.*, p. 116.

plicated hierarchy of officials of the old monarchical China.¹ The main function of *Suin-kien* of a *Sze* or *Hsiang* was to assist the district magistrate in judicial affairs. Beside this official and a regular force of trained subordinates, the district magistrate was further assisted, in each *Chuang* or village,² by a semi-official person called *Ti-pao* (or *Pao-chia*)³ who was also under the control of the village elder or headman called *Hsianglao* or *Hsiang-chang*⁴ who was elected or rather nominated by his fellow-townsmen and confirmed in his position by the district magistrate. The village elder acted as the justice of the peace in his village and cared for many other things appertaining to the village self-government. The medium, however, through whom the district magistrate communicated with the village was the *Ti-pao* (or "local constable"). Among other miscellaneous functions, this semi-official agent was "the official land surveyor of his village; had the "duty of verifying title and boundaries in every transfer of land"; and was responsible for the prompt payment of the land tax and the grain tribute.⁵

After this cursory review of the provincial and local

¹ S. W. Williams, *op. cit.*, p. 441.

² This is a subdivision of the *Sze* or *Hsiang*. It is also interchangeably called the ward, the *Pao*, or the *Tu*. Some villages are really towns, and several towns or villages make up a large town or city.

³ "This office had its origin in an ancient tithing system under which every hundred families constituted a *Chia*, and each *Chia* was divided into ten *Pai*. Over each *Pai* was a headman elected by the ten families, and over the *Chia* was a headman called *Pao-chia*, or protector of the *Chia*, usually spoken of as *Ti-pao*." (E. T. C. Werner, *China of the Chinese*, 1919, p. 162.)

⁴ Sometimes they were called merely "manager." Village elders were not necessarily the oldest men in the village, nor the wealthiest or the literati. Above all, they were practical and experienced in human affairs. (A. H. Smith, *Village Life in China*, 1899, p. 227.)

⁵ S. W. Williams, *op. cit.*, pp. 500-551; see also Smith, *op. cit.*, p. 228.

fiscal system, together with the political system, of the old China, a few comments may not be out of place. The fiscal system as described above was miserably inefficient. And this inefficiency was chiefly due 1) to the attempt of the central government to over-centralize the fiscal system of the empire by appointing every official from the presidents of the Board of Revenue down to the district magistrates, 2) to the short tenure of the appointments, thus losing the advantages of experience and expertness of administration, 3) to the appointment of a stranger to govern a locality whose conditions he did not know and whose dialect he could not understand, and 4) to the scanty allowance for the maintenance of the officials and their staffs and for the collection of taxes, thus inducing irregular accounting of the collection of the taxes, especially when control and supervision were wanting due to the vastness of the country and the lack of the means of communication.

Social and political institutions change but slowly. China could become a republic in name overnight in 1912, but she could not change her old political system entirely and fashion it anew within a short period. A new political system must be implanted on the old, and take its place first in letter and only gradually in spirit.

Since 1912 the reorganization of the central government in China bears a close resemblance to the French cabinet system. The president is the representative of the nation and a figurehead. The prime minister is held responsible to the national assembly¹ and is the real executive of the nation. He and his nine ministers constitute the cabinet or *Kowwuyuan*. The new word "ministry" has been substituted for the old word "board". The nine ministries are the ministry of foreign affairs or *Wai-chao*

¹ It is composed of two houses: the Senate and the House of Representatives. The former has 274 members; the latter, 596.

Pu, the ministry of the interior or *Nei-wu Pu*, the ministry of finance or *Tsai-cheng Pu*, the ministry of army or *Lu-chun Pu*, the ministry of navy or *Hai-chun Pu*, the ministry of education or *Chiao-yu Pu*, the ministry of justice or *Shih-fa Pu*, the ministry of agriculture and commerce or *Nung-shang Pu*, and the ministry of communication or *Chiao-tung Pu*.

Of these nine ministries, we are here chiefly interested in that of finance. The minister of finance, like the other ministers, is nominated by the premier and appointed by the president with the advice and consent of the Senate. He has a very wide range of power: a general oversight over all the financial affairs of the central government; control of its revenues and expenditures; control of national loans, national currency and banking, government monopolies, and the sinking funds; and supervision over the finances of all the provincial and local governing bodies.¹ Under the minister are two vice-ministers who are nominated by the minister and appointed by the president. Then follow the four councillors, five bureau heads, four secretaries, and scores of other assistant and minor officials.²

Besides the general secretary office (*Chung-wu Ting*), the minister and vice-ministers of finance are further assisted by five bureaus: namely, the Bureau of Taxation (*Fu-shui Sze*), the Bureau of Accounts (*Kwei-chi Sze*), the Bureau of Currency (*Chuan-bee Sze*), the Bureau of Loans (*Kung-tzai Sze*), and the Treasury (*Koo-chang Sze*).

The duties and powers of the five bureaus are respectively as follows: ³

¹ *Fa Kwei Lei Pien* (*Classified Laws and Ordinances of the Republic of China*): vol. i, part A, division ii, p. 49. Law enacted on Mar. 11, 1912.

² *Ibid.*, p. 50.

³ *Ibid.*, pp. 50-52.

1. *Bureau of Taxation*—to take care of and to control and supervise the collection of national taxes,
to keep land registries,
to investigate, audit, and analyse the accounts of national taxes,
to take care of the non-tax receipts under the jurisdiction of the ministry,
to supervise the revenue receipts of the provincial and local governing bodies, etc.
2. *Bureau of Accounts*—to prepare general and special budgets,
to register and scrutinize the estimated accounts of all the governmental units of the central government,
to compile reports of annual receipts and expenditures,
to keep account of funds and public properties,
to supervise the budgetary estimates of the provincial and local governing bodies, etc.
3. *Bureau of Currency*—to investigate the existing conditions of the national currency,
to study, formulate, and recommend schemes of currency reform,
to estimate the approximate amount of currency the nation needs,
to keep informed of the world monetary situation and the international movement of specie,
to supervise the mints and banks,
to issue bank note, inspect specie reserves, etc.

4. *Bureau of Loans*—to float and control national loans,
to redeem and pay interest on national loans,
to keep full record of the bonds, registering the transfers,
to keep statistics of the national loans,
to study, formulate, and recommend methods to improve the national loan policy,
to issue treasury notes and to provide for their retirement, etc.
5. *The Treasury*—to take care of all the receipts and expenditures of the central government,
to inspect and scrutinize all the warrants or orders of payment,
to control the national treasury and to keep its accounts and statistics,
to control government deposits in fiscal agency banks,
to supervise the officials engaged in receipts and payments of money,
to take care of sinking funds, trust funds, etc.

Judging from the above description of the organization of the ministry of finance since 1912, it is evident that the old system of check and balance between the Chinese and the Manchus has completely disappeared, that the doctrine of functional consolidation has been carried out to its logical conclusion, and that the increasing importance of public credit in the field of modern government finance has been realized and stressed in establishing a special bureau to take charge of national loans. Efforts have also been made to control the provincial and local finances, as is evidenced by the functions of the three out of five bureaus; but the system of communication and transportation in China remains practi-

cally the same as was the case during the monarchical regime, and its ideal form is still a long way from realization.

The system of the provincial and local government has practically remained the same since 1912 as before. There are two chief executives for each province, one civil governor (*Sun-chang*) and one military governor (*Tu-chun*). Each is supposed to exercise his authority only within his own sphere of jurisdiction. But owing to the political upheavals which are more or less inevitable after a great political and social change, the military governor has not infrequently trespassed, encroaching upon the prescribed authority of the civil governor which is to look after the affairs of the civil and police administration of the province and to supervise the financial, judicial, and local administration of the province. Both governors are appointed by the president through the recommendation of the cabinet in common and in particular through that of the minister of the interior and that of army respectively. The military governor has usually more than two divisions of soldiers under his control. He is nominally under the absolute control of the president and the ministry of army, but actually he is more or less independent and not infrequently defies the orders of the central authority.

The civil governor's office is divided into five bureaus: namely, the Bureau of General Affairs, the First Bureau, the Second Bureau, the Third Bureau, and the Fourth Bureau. The bureau of general affairs looks after the secretarial, police, financial, judicial and publicity affairs; the first bureau, miscellaneous affairs; the second bureau, civil administration; the third bureau, education; and the fourth bureau, industry. These five bureau chiefs are appointed by the president on the recommendation of the civil governor with the approval of the prime minister.

Besides, there are three independent commissioners: the

Commissioner of Finance (or *Tsai-cheng-ting-chang*), the Commissioner of Education (or *Chiao-yu-ting-chang*), and the Commissioner of Industry (or *Suh-ni-ting-chang*) who are all appointed from Peking by the presidential mandate on the recommendation of the respective ministries. Of the three provincial commissioners, that of finance concerns us most. He virtually occupies the same position as that once occupied by the provincial treasurer or the civil commissioner of the late *Tsing* dynasty. Being an agent of, and directly responsible to, the ministry of finance, he looks after the collection of all the national taxes in his province, except the maritime and inland customs and the salt gabelle; scrutinizes, analyses, and reports the provincial budgets to the ministry; and supervises provincial and local indebtedness. The commission of finance is composed of three bureaus: the Bureau of General Affairs, the Bureau of Collection, and the Bureau of Expenditure.¹ Each of the five territories has also a commissioner of finance.²

The unit of *Fu* or prefecture has been abolished since 1912, and in its place the circuit has been reorganized. Instead of being a link between the civil officials and the military officers as was the case during the late *Tsing* dynasty, the circuit governor or *Tao-yun* as he is now called acts as a channel of communication between the provincial authority on the one hand and the district magistrates on the other who perform in their districts to all intents and purposes, practically the same functions as formerly with the exception that most of the judicial and some of the

¹ *Fa Lin Ta Chuan* (*A collection of Laws, Presidential Proclamations and Mandates, Ministerial Rulings and Regulations, etc. of the Republic of China*): Group II, pp. 125-6.

² The five territories are Kingshoa or the Metropolitan District, Jehol, Chahar, Suiyuan, and Chuan-pian.

legislative functions have been taken away from them. The office of *Tao-yun* is divided into three bureaus: the Bureau of General Affairs, the Bureau of Civil Administration, and the Bureau of Education and Industry.¹ He is less a local administrator than a provincial agent to supervise local affairs. He is appointed by the president on the recommendation of the provincial civil governor with the knowledge and approval of the prime minister.

In contrast with *Tao-yun*, the district magistrate or *Hsien-chih shih* as he is now called is more a local administrator than a provincial agent. Judicially, he is still the justice of the peace of his district² and in some interior and conservative places he acts concurrently as the prosecutor.³ His salary fluctuates from \$240 to \$300 mex. per month according to the size and population of the district. His office is divided into three bureaus: the Bureau of Civil Administration, the Bureau of Finance, and the Bureau of Education.⁴ The bureau of civil administration deals with such matters as the police, the citizen militia, the local self-government, the local chambers of commerce, the local agricultural associations, public charity and the factories or workshops for the poor. The bureau of finance deals with the collection of the national and local taxes—the latter are composed of the various additional rates on the former—and of the special taxes for police, education and local self-government. The bureau of education deals with such affairs as the inspection of schools, encouragement for the establishment of educational institutions, investigation of the school age of the children in the district, apportionment of school funds, libraries, public lectures, etc. The

¹ C. C. Lin, *A political and physical geography of Chekiang*, pp. 115-6.

² C. C. Lin, *op. cit.*, p. 141.

³ H. Lin, *The Present Administrative Law of China*, p. 50.

⁴ C. C. Lin, *op. cit.*, pp. 117-8.

magistrate is directly under the jurisdiction of *Tao-yun*, and is appointed in a manner similar to that of the latter.

So far the attempt at local self-government has not been successful, due chiefly to the constant political troubles ever since 1912. This phase of the subject, in connection with our particular enquiry, namely, the fiscal relations between the different grades of governments in China, will be taken up later on.

CHAPTER II

THE PAST AND PRESENT FISCAL RELATIONS BETWEEN THE CENTRAL, THE PROVINCIAL, AND THE LOCAL GOVERNMENTS

A. THE PAST FISCAL RELATIONS

A short description of the general and fiscal organization of the grades of governments in China both before and after 1912 being given, we are now in a position to go into detail as to the past and present fiscal connections between those different governing authorities. Let us first take up the financial connections between the provincial authorities and the central government during the Manchu administration.

As every state rests its first foundation on conquest,¹ and as this was especially true of the extended oriental empires, the Chinese emperor was conceived to be the owner of everything and every person throughout the length and breadth of his empire. All the lands, of whatever kind, were his property. The persons owning these lands were but his tenants and as such, they had to pay rent or tribute to the landlord. Such, indeed, was the foundation and origin of the land tax, the grain tribute, or tribute of any other agricultural products and of any other manufactured articles. In the primitive stage of economic evolution when the money economy did not have its full sway as at present, payment in kind was the most natural procedure.

¹ "... the State, as a class state, can have originated in no other way than through conquest and subjugation." (F. Oppenheimer, *The State*, p. 14.)

What the emperor, his imperial household, and his army of officials needed was not money, but the consumable goods to satisfy their daily wants.¹

To take but a few instances: up to the late years of the Manchu dynasty, the Province of Chekiang annually paid tributes to the emperor in tea, satin, silk, lumber, wood—oil, fruit, etc; the Province of Hunan, lumber and wax or candles; the Province of Kiangsi, linen, tea, shrimp (dried), mushroom (dried), ink-stick, lotus, lotus flour, date, letter-paper, lumber, etc; the Province of Kuangtung, incense, tin, glue, wax or candles, pears, lumber, kitchen utensils, etc.; etc. In short, every province had to pay tribute to the emperor in whatever commodity was its special and renowned product. With regard to rice, which is the greatest of all necessities for the Chinese people, every province was required to furnish some to the throne, although the Northern provinces, producing no rice, paid in lieu the grain tribute in wheat, millet, corn, etc. Since China's frequent contact with the West in the last three-quarters of a century, there has resulted a fuller commercial development both within and without, and hence a wider application of money economy. As a result of inevitable economic evolution, all the tributes in kind have been commuted into money payments, especially since the advent of the republic. In 1907 and 1908, the amounts of the commutation payment of the province of Kuangtung, to take but one example, were 406,106 taels and 344,988 taels respectively.²

¹ "Dominion is not an end in itself, but merely the means of the rulers to their essential object, the enjoyment without labor of articles of consumption as many and as valuable as possible." (Oppenheimer, *op. cit.*, p. 244.)

² Strange to say, these funds were not remitted to Peking by the same authority. In 1907, the civil commissioner of the province remitted

The provincial tributes in kind, however, constituted but a very small fraction of the provincial support of the central government. The provincial authorities supported the Court or the Peking authority in many other ways, transacted on a pure cash basis.

In the first place, there were provincial contributions to the Court of Imperial Household (*Nei-wu Fu*) for the specific purpose of meeting the pecuniary needs of the imperial family. Again to take the Province of Kuangtung for example, it contributed to this amount, in 1907 and 1908, 941,824 taels and 788,170 respectively.¹

In the second place, there were provincial contributions to the Board of War, inasmuch as this account dealt, in the main, with the national defense or military expenditures. In 1907 and 1908, Kuangtung, for another instance, paid

63,794 taels, the customs commissioner, 342,312 taels, making a total of 406,106 taels. In 1908, the former remitted 49,662 taels, the latter, 295,326 taels, making a total of 344,988 taels. (*Financial Report of Kuangtung*, 1909, vol. ii, pp. 1-44.)

¹ These were remitted by the following different authorities:

	1907	1908
a. By the Customs Commissioner: to		
(a) Court of imperial household	200,660 tls.	200,660 tls.
(b) Imperial commissary	89,934 "	57,200 "
(c) Summer Palace	40,000 "	40,000 "
(d) Chi-hua Kuan	13,000 "	— "
(e) Imperial savings account	314,400 "	314,400 "
(f) Imperial gardeners' salaries	300 "	300 "
Total	658,294 "	612,560 "
b. By the Civil Commissioner	123,960 "	123,960 "
c. By the Salt Commissioner	51,650 "	51,650 "
d. By the Bureau of Reorganization— for mausoleum expenses	107,920 "	— "
Grand total	941,824 "	788,170 "

(*Financial Report of Kuangtung*, vol. ii, pp. 1-44.)

to this account 1,383,410 taels and 2,389,458 taels respectively.¹

In the third place, there were provincial contributions to the Board of Revenue. In 1907 and 1908, the same province contributed to this account 210,910 taels and 499,900 taels respectively.²

¹ These were remitted by the following different authorities:

	1907	1908
a. By the Civil Commissioner:		
(a) Pei-yang military reorganization..	334,010 tls.	338,800 tls.
(b) North-Western defense	65,000 "	80,000 "
(c) Defense of the realm	70,000 "	130,000 "
(d) War chest	100,000 "	200,000 "
(e) Famine chest	12,000 "	13,000 "
(f) Administrative expenses	150,000 "	250,000 "
Total	731,010 "	1,011,800 "
b. By the Customs Commissioner (administrative expenses, war chest, North-Western defense, and Imperial body guards)	499,400 "	602,628 "
c. By the Salt Commissioner	153,000 "	203,000 "
d. By the Bureau of Reorganization-navy	— "	572,030 "
Grand total	1,383,410 "	2,389,458 "

(*Financial Report of Kuangtung*, vol. ii, pp. 1-44.)

² These were remitted by the following different authorities:

	1907	1908
a. By the Bureau of Reorganization:		
(a) On seignorage	28,538 taels	22,431 taels
(b) On sales of titles	— "	36,234 "
(c) For the travelling expenses of special commissions abroad.	63,870 "	131,910 "
Total	92,408 "	190,575 "
b. By the Civil Commissioner	8,915 "	8,915 "
c. By the Customs Commissioner	103,245 "	103,151 "
d. By the Salt Commissioner	6,342 "	197,259 "
Grand total	210,910 "	499,900 "

(*Financial Report of Kuangtung*, vol. ii, pp. 1-44.)

In the fourth place, there were provincial contributions to defray the central administrative expenses including the purchases and supplies as well as the boarding expenses of the different staffs concerned, of the different boards (other than the Board of Revenue), departments, offices, courts, bureaus, commissions, schools, etc. in Peking. In 1907 and 1908, the same province paid on this account 507,672 taels and 821,531 respectively.¹

In the fifth place, there were provincial contributions to meet the indemnity payments² contracted by the central

¹ These were remitted by the following different authorities:

	1907	1908
a. By the Customs Commissioner:		
(a) To the Grand Secretariat, the Board of Foreign Affairs, etc.	80,130 taels	279,279 taels
(b) To the special commissions abroad	318,896 "	342,850 "
Total	399,026 "	622,129 "
b. By the Civil Commissioners (to 17 different offices)	50,226 "	64,668 "
c. By the Salt Commissioner (to 11 different offices)	10,264 "	9,632 "
d. By the Bureau of Reorganization (to 9 different offices)	46,641 "	122,702 "
e. By the Education Commissioner, the Industry Commissioner, and the Nan-hai District Magistrate	1,515 "	2,400 "
Grand total	507,672 "	821,531 "

These were remitted to the different recipients in Peking without the intermediation of the Board of Revenue. A few remittances were even without the knowledge of the latter. In the case of Kuangtung, there were six remittances unreported. (*Financial Report of Kuangtung* vol. ii, pp. 1-44.)

² The Japanese Government, in 1895, exacted an amount of 230,000,000 taels from China as a result of the latter's defeat in the Sino-Japanese War. In 1901, the eight Allied Powers exacted from China an amount of 450,000,000 taels as a result of the Boxer Uprising in 1900. (*China Year Book*, 1919, p. 348.)

authority with the foreign powers. In 1907 and 1908, the same province contributed to this account, remitting directly to the Customs Commissioner of Shanghai 2,928,396 taels and 3,049,281 taels respectively.¹

In the sixth and last place, there were provincial contributions to meet the foreign debt charges payable by the central government to the foreign bankers or syndicates concerned. In 1907 and 1908, the same province paid on this account 4,594,571 taels and 4,636,632 respectively.²

So much for the direct provincial contributions to the central government. There was, however, another type of provincial contribution which was indirect in that it was turned over to the needy province or provinces when ordered by the emperor. Looking at it from the viewpoint of the

¹ These were remitted by the following different authorities to the Shanghai Customs Commissioner direct:

	1907	1908
a. By the Civil Commissioner	2,458,071 tls.	2,470,089 tls.
b. By the Salt Commissioner	41,246 "	40,817 "
c. By the Customs Commissioner	429,079 "	538,375 "
Grand total	2,928,396 "	3,049,281 "

(*Financial Report of Kuangtung*, vol. ii, pp. 1-44.)

² These were remitted by the following different authorities to the Shanghai Customs Commissioner direct:

	1907	1908
a. By the Civil Commissioner (for 3 subaccounts)	966,424 tls.	980,677 tls.
b. By the Customs Commissioner (for 4 different subaccounts)	2,305,791 "	2,305,791 "
c. By the Salt Commissioners (for 2 subaccounts)	279,043 "	263,937 "
d. By the Bureau of Reorganization ...	440,000 "	440,000 "
e. By the Bureau of Likin	603,313 "	646,277 "
Grand total	4,594,571 "	4,636,682 "

(*Financial Report of Kuangtung*, vol. ii, pp. 1-44.)

contributing province, it was nominally a kind of financial assistance given to a less fortunate province or provinces, but it was in fact of the same nature as the above six categories of provincial contributions, the only difference being that it was directly paid to a needy province in order to save the trouble of the Board of Revenue in both receiving and remitting the said contribution. Looking at it from the viewpoint of the receiving province, it was a species of financial aid from the more opulent province or provinces; but, at bottom, it was a central subsidy, pure and simple, the only difference being that the recipient received the subsidy direct from the province which should and would otherwise have remitted the contribution to Peking. Looking at it from the standpoint of the central government, it was a mere counterbalancing of a provincial contribution against a central subsidy. Whether the contribution was remitted to Peking or not, made no difference to the contributing province, in so far as it had to pay out a certain amount of money at all events. Whether the subsidy came from Peking or elsewhere, it was all the same to the receiving province, in so far as it received a certain amount anyway. Whether the central authority received and remitted the very same amount of money, was of no consequence to Peking, in so far as it derived no benefit for itself from the transaction.

In order to obtain some idea about this fiscal arrangement between the different provinces, let us take Kuangtung¹ and Yunnan for examples, the former as a contributing province and the latter as a receiving province.

In 1907, Kuangtung² remitted to

¹ The reason why Kuangtung is particularly favored here for illustration is because the *Financial Report of Kuangtung* is the best and the most scientific of all the provincial financial reports.

² *Financial Report of Kuangtung*, vol. ii, pp. 45-53.

(1) Fukien	5,000	tls. for famine relief
(2) Hupeh	2,820	" " " "
(3) Kiangsu	5,000	" " naval office exp.
(4) Kuangsi	92,489	" " military expenses
(5) Tibet	113,800	" " " "
(6) Yunnan	364,225	" " " "
(7) Misc. provinces	218,182	" " postal administration
Total	801,516	"

In 1908, it remitted ¹ to

(1) Fukien, Hunan, and Kiangsi	25,655	tls. for distribution of additional salt tax collected in Kuangtung
(2) Kiangsu	20,000	" " famine relief
(3) Kiangsu	33,232	" " naval office exp.
(4) Kuangsi	43,492	" " military expenses
(5) Kweichow	285,228	" " " "
(6) Yunnan	113,400	" " " "
(7) Misc. provinces	218,182	" " postal administration
Total	739,189	"

In 1909, Yunnan ² received from

(1) Hunan	230,000	tls. for operating expenses of the copper mines ³
(2) Hupeh	654,000	" " military expenses
(3) Inland Customs offices in several provinces.	260,000	" " " "
(4) Kuangtung	260,000	" " " "
(5) Szechuan	2,275,000	" " " "
Total	3,679,000	"

In general, we may conclude that ten provinces out of

¹ *Financial Report of Kuangtung*, vol. ii, pp. 45-53.

² *Financial Report of Yunnan*, pt. i, ch. i, pp. I-II.

³ In 1908, it received 62,444 tls. from Kiangsu and also a certain sum from Kiangsi. (*Financial Report of Kiangsu*, ch. xiii, pp. 17-20; also *Financial Report of Kiangsi*, pp. 1-30.)

eighteen¹ forwarded such financial aids to the needy province or provinces under the command of the emperor, twelve receiving them,² five both receiving and forwarding,³ and five exclusively forwarding.⁴

This system of both receiving and forwarding without striking a balance was established by the traditions and customs of mutual profit and protection among the Mandarins who frequently got fat through illegal handling of

¹ Seven (Chihli, Fukien, Kansu, Kuangsi, Kweichow, Yunnan and Anhui) exclusively receiving, and one—Shensi—neither receiving nor forwarding.

² They were Anhui, Chekiang, Chihli, Fukien, Kiangsu, Kiangsi, Kiangsu, Hunan, Hupeh, Kuangsi, Kweichow, and Yunnan.

³ They were:

(1) Chekiang: Forwarding its aids to Anhui, Fukien, Kiangsi and Kiangsu; receiving from Kiangsu the yields of silk tax collected there for the repair of dykes in Chekiang. As the two provinces are abutting upon each other, this tax was collected in Kiangsu in order to avoid evasion. We might say that one was the tax-collection agent of the other. (*Financial Report of Kiangsu*, ch. xiii, p. 20.)

(2) Hunan: Forwarding aids to Hupeh, Kiangsu, Kiangsu, Kuangsi, Yunnan, etc.; receiving from Kuangtung the apportionment of the additional salt tax collected there. (*Financial Report of Kuangtung*, vol. ii, pp. 45-53.)

(3) Hupeh: Forwarding aids to Yunnan; receiving from Hunan.

(4) Kiangsi: Forwarding aid to Chihli, Kiangsu, Kiangsu, Sinkiang, and Yunnan; receiving from Kuangtung the apportionment of the additional salt tax collected there.

(5) Kiangsu: Forwarding aids to Chihli, Fukien, Kiangsu and Yunnan; receiving from Hunan and Chekiang, the latter apportioned the additional salt tax collected within its border to Kiangsu, Anhui, and Fukien. Thus, in 1908, Chekiang apportioned the additional salt tax to Anhui, amounting to 17,274 taels; to Kiangsi, 14,008 taels; and to Kiangsu, 13,334 taels. (*Financial Report of Kiangsu*, ch. i, pp. 1-13; also *Financial Report of Chekiang*, pp. 31-33.)

⁴ They were Honan, Kuangtung, Shansi, Shantung, and Szechuan.

the provincial finances. In 1906, the total expenditures of the central administration of the Chinese Empire were 136,496,000 taels, out of which the imperial subsidies or grants-in-aid to the needy provinces, including all the forwarding of the richer provinces to the poorer ones under the command of the throne, amounted to 34,042,000 taels or 25 per centum.¹

According to the budget of the fourth year of the reign of *Hsuen Tung*, 1911, the last year of the *Tsing* Dynasty, the matricular contributions amounted to \$174,902,441 mex.² and the central subsidies amounted to \$11,327,714, leaving a balance of \$163,574,727 for the expenses of the central government. (See Appendix I.)

Such were the fiscal relations between the central and the provincial governments in China during the old, rustic, and mediaeval *Tsing* dynasty. The fiscal relations between the provincial and the local authorities were very simple. The latter were the fiscal agents of the former, who were in turn the fiscal agents of the emperor in collecting revenues, especially the land taxes. Before proceeding to discuss the more recent fiscal relations between the different grades of government in China, we may do well to summarize, and characterize, as well as to criticize, these fiscal relations of the *ancien régime*.

A Summary and a Criticism.

First, there was communism of finance between the different grades of government. The land was supposed to be the property of the emperor, and the land tax, therefore,

¹ H. B. Morse, *op. cit.*, p. 129.

² One Chinese Yuan (or Mexican dollar) = \$4777 in U. S. currency. (*The Monetary Systems of the Principal Countries of the World*, compiled in the office of the Director of the Mint, Washington Government Printing Office, 1913, p. 12.)

was and should be his chief income. But, owing to the fact that the land tax maintained the *Hsien* or district magistracy, supported the prefecture administration, nourished the circuit governor, and fed the provincial authorities, only a fraction of this tax was returned to His Majesty. The land tax had been, indeed the mainstay of those different governing authorities from time immemorial. Thus, generally speaking, the land tax might be divided into two parts. First, the reserve fund which was earmarked by the district magistrate for his own maintenance, for the maintenance of his staff and office, and for the maintenance of the prefecture, which had jurisdiction over him, as well. The fact that his allowance was scanty and hardly enough to keep body and soul together and that the appropriation for the collection of the land tax was virtually *nil* made this reserve fund all the more logical and necessary. Second, the transporting fund which was remitted to the executive department or rather the civil commissioner of the provincial capital. The transporting fund also included the salt gabelle, the maritime customs duties, and the inland customs duties, all of which were, before 1912, administered by special commissioners under the supervision and jurisdiction of the provincial governor.

Secondly, there was the provincial contribution. "As soon as the appropriations had been approved by the emperor, those provinces whose collected revenues exceeded their expenditures were required to transport their surplus revenues to Peking or to provinces in less fortunate circumstances."¹ This provincial continuation could not, however, be likened to the German "matricular contribution", inasmuch as the latter distinctly implies that Germany, before 1914, was a federated empire, while China

¹ H. L. Huang, *op. cit.*, pp. 104-105.

was a unitary autocratic monarchy, pure and simple. It was rather the turning over of the balance of the national land tax to the central government after the deduction of all the necessary expenses incurred in the local and provincial administrations as well as of the surplus of the salt gabelle, the maritime and the inland customs duties over and above the cost of their administration.

Thirdly, there was the central subsidy. As any province which had a surplus revenue was called upon to contribute to the central government, so any province which had a deficit received subsidies from the central government or directly from one or more richer provinces as a result of the imperial command. This central subsidy, again, was not of the same nature as the English grants-in-aid, inasmuch as the former were subventions without any condition for efficiency or "national minimum", and worse still, often made for wasteful and fruitless military expenses without any central control and audit.

To criticize the above financial arrangements between the central and the provincial governments, let us take the last point first. (The system of central subsidy had begotten at least two undesirable results. First, it had encouraged the deficient provincial governments eagerly to request the support of the Board of Revenue, which, in turn, was compelled to depend entirely upon the aid furnished by the richer provinces. Second, it had encouraged the concealment of revenues of the richer provinces, owing to the reluctance of these provinces to share their revenues with the poorer ones.

The effects of the system of provincial contribution were anything but desirable. Owing to their reluctance to share the revenue with the Board of Revenue, it had encouraged the concealment of revenues on the part of the richer provinces. It had also encouraged the other boards and offices than the Board of Revenue to solicit the support of these

provinces, the success of which depended entirely upon the personal influence of the heads of the different boards and offices. This again furnished the richer provinces another incentive to conceal their revenue. Moreover, human nature being what it is, it had undoubtedly a tremendous effect in engendering wasteful expenditures on the part of the richer provinces, for why should they save in order that the Board of Revenue, the other boards and offices in Peking, and the poorer provinces might share their revenue?

Administratively speaking, this system was also a glaring example of inefficiency and duplication of effort, for no less than eight different authorities, in the case of Kuangtung, remitted funds to more than a score of different authorities in Peking and elsewhere, separately and without the intermediation, and worse still, sometimes even without the knowledge, of the Board of Revenue.

Finally, there was communism of revenue between the different grades of government. There was no separation of revenue between the central, the provincial, and the local governing bodies. The inevitable result of such a fiscal arrangement in such a vast country as China was a general scramble for revenue. The district magistrate tried to collect from the people as much as possible and remit to the provincial authorities as little as possible. The provincial authorities, similarly, tried to obtain from the district magistrates as much and remit to the central government as little as possible. The fact that these local and provincial officials were underpaid before 1912 further aggravated this evil. Mr. H. B. Morse has well described the Chinese financial characteristics during the imperial regime. He said that a Chinese official was less an administrator than a tax-collector for himself and his staff after the deduction of the minimum or rather the maximum amount of matricular contribution to his superiors; and that he resembled the

English Paymasters of the Forces up to the time of Pitt who swallowed the entire interest on official balance as well as the Sheriff of the County of New York who received annual fees amounting to \$60,000 exclusive of his annual salary of \$5,000 and who paid the salaries of his deputies and provided for the expenses of his office out of these fees.

The justification of this financial centralization or communism, if it may be so called, during the imperial regime was the consolidation of funds or the "common purse". But the theory and practice were very divergent, as Mr. Morse further points out. /In theory, every thing was subject to the control of the emperor—land, property, and revenue. In practice, the revenue was assigned piecemeal from certain sources of collection to certain defined heads of imperial expenditure and had to be remitted independently for the purpose assigned, as we have already pointed out. As a further evidence to prove our point, the Shanghai Customs Commissioner was responsible for 1) the interest charges on foreign debts, 2) the expenses of the legations abroad, 3) the expenses of the Yellow River flood prevention, 4) the expenses of the provincial coastal defense, 5) the expenses of the imperial household in Peking, and 6) the expenses of the imperial mausoleum; and he was obligated to remit the funds separately and independently to the incumbents in charge of the said respective duties.¹

All these defects, we may conclude, of the fiscal administration of the Chinese Empire before 1912, were attributable largely, if not entirely, to the non-separation of the sources of revenue between the different grades of government, in so far as the system itself was concerned. Communism of finance between the various governing bodies in

¹ The reason why the Shanghai Customs Commissioner could bear so heavy a burden was because he then controlled the maritime customs at the port of Shanghai which has long been the New York of China.

such a vast country as China, which is about one-fourth larger than the United States of America, must assuredly be deprecated and condemned.

B. THE RECENT FISCAL RELATIONS

The more recent or present fiscal relations between the central, the provincial, and the local governments in China are mere remnants of the old bureaucratic but inefficient fiscal system of the *Tsing* dynasty. It is still supposed to be highly centralized. But in such an extended country as China, a centralized system of finance between the various grades of government in every detail is a matter of human impossibility. Social and political institutions being slow to change, several characteristics of the late imperial fiscal system still linger, chief of which are the provincial contribution and the central subsidy. Separation of national finance from the provincial and local finances, though talked about for quite a while immediately after the establishment of the Republic, has never yet been realized.

According to the budget of the second year of the Republic (1913), the provincial contributions from the rich provinces amounted to \$32,418,530 and the central subsidies to the poor provinces and to the territories amounted to \$29,137,707. The difference between the amount of provincial contributions in 1911 (\$174,902,441) and that in 1913 (\$32,418,530) was due to the provincial administration of both the customs duties (inland or regular) and the salt gabelle in 1911, both of which were put under the direct control and administration of the Ministry of Finance in 1913. The actual receipts from the provincial contributions in 1913 amounted to \$5,600,000 only, and the central subsidies, to \$2,800,000 only.¹

¹ For a detailed statement, see Appendix II.

According to the budget of the third year of the Republic (1914), the provincial contributions amounted to \$29,737,013 and the central subsidies to \$18,304,248. But the actual receipts of the former amounted to \$14,000,000 only; and the actual disbursements of the latter, to \$3,000,000 only.¹

In the fourth year budget of the Republic (1915), the distribution of the provincial contributions among the rich provinces, on the basis of the surplus revenue of the previous year of each of the rich provinces, was as follows:

Chekiang	\$3,060,000
Chihli	200,000
Fukien	1,160,000
Hunan	1,200,000
Hupei	1,000,000
Kiangsi	2,160,000
Kiangsu	3,000,000
Kuangtung	4,200,000
Shansi	1,000,000
Shantung	1,200,000
Shensi	600,000
Szechuan	3,000,000
Total	\$21,780,000
Actual receipts	17,956,907 ²

In the same year the quota of the specified national revenues³ which the rich provinces were required to collect and to remit to the central government was assigned as follows:⁴

¹ For a detailed statement, see Appendix III.

² S. Y. Chia, *The Financial History of the Republic*, 1907, vol. i, p. 60.

³ The specified national revenues are (1) the stamp tax, (2) the tobacco and wine licenses, (3) the tobacco and wine surtax, (4) the land-title inspection fees, and (5) the land-title surtax.

⁴ S. Y. Chia, *op. cit.*, vol. i, p. 60.

Chekiang	3,088,316.71
Chihli	200,000.58
Fukien	1,036,454.23
Hunan	1,130,204.42
Hupei	875,265.59
Kiangsi	2,039,184.91
Kiangsu	3,121,590.71
Kuangtung	2,320,000.00
Shansi	1,000,000.00
Shantung	900,000.00
Shensi	600,000.00
Szechuan	2,678,647.32
Total	\$18,989,664.47
Actual receipts	18,747,558.88

The central subsidies for frontier defense in 1915 amounted to \$2,749,334.42.¹

According to the budget of the fifth year of the Republic (1916), the provincial contributions amounted to \$42,308,871 and the central subsidies amounted to \$12,224,588. The amount of the provincial contributions was later on reduced to \$25,737,600 due to the provincial petitions for reduction.² The distribution of the reduced amount of the provincial contributions for 1916 was as follows:³

Anhui	\$ 220,000
Chekiang	4,260,000
Chihli	640,000
Fukien	1,520,000
Honan	480,000
Hunan	1,200,000
Hupei	1,520,000
Kiangsi	2,410,000
Kiangsu	5,000,000
Kuangtung	4,200,000
Shansi	2,100,000
Shensi	960,000
Shantung	1,227,600
Total	\$25,737,600

¹ S. Y. Chia, *op. cit.*, vol. i, p. 63.

² For a detailed statement, see Appendix IV.

³ S. Y. Chia, *op. cit.*, vol. i, pp. 71-2.

Again the quota of the specified national revenues assigned to the respective provinces and territories was as follows: ¹

Chahar	\$ 117,000
Chuan-pian	230,872
Jehol	100,000
Kweisui	153,200
Metropolitan district	670,000
Anhui	1,600,000
Chekiang	2,700,000
Chihli	3,740,000
Fengtien	600,000
Fukien	1,090,200
Heilungkiang	300,000
Honan	3,200,000
Hunan	2,110,950
Hupei	1,830,000
Kangsu	700,000
Kiangsi	1,040,000
Kiangsu	2,500,000
Kirin	1,200,000
Kuangsi	590,000
Kuangtung	2,950,000
Kweichow	420,000
Shansi	1,446,999
Shantung	2,137,200
Shensi	1,254,162
Sinkiang	270,000
Szechuan	3,000,000
Yunnan	649,800

Total \$36,600,583

(For the treasury regulations governing the procedure of the provincial contributions as well as the remittances of the specified national revenues, see S. Y. Chia, *op. cit.*, vol. i, pp. 55-60.)

So far as outward appearance goes, the fiscal system throughout the entire Chinese Republic is still a very centralized one. No system, political or social, with a long

¹ S. Y. Chia, *op. cit.*, vol. i, pp. 73-5.

historical background can be transformed overnight. The system, as stated already is a mere legacy of the old despotism, bureaucracy, and hierarchy, although various minor changes have since 1912 been introduced; such as 1) the centralization of provincial remittances to Peking, 2) the centralization of the receipts of provincial contributions by the Ministry of Finance, 3) the centralisation of central subsidies, the forwarding of the surplus revenue of one province to another being discontinued,¹ and 4) the central administration of the specified national taxes in provinces by the Commissioners of Finance who are the agents of the Minister of Finance. Like the countries of continental Europe, the central government of the Chinese Republic has nominally at least, complete control over the provincial and local administrations. But, owing to the vastness of the country and the lack of adequate means of communication, this centralized fiscal and administrative system proves to be a misfit, neither feasible nor desirable. Being democratic in tendency and inclination, the Chinese people have long enjoyed village self-government. Local self-government, therefore, should take the place of central interference, even if China were not a republic.

The movement for local self-government was started even before the republican regime. In 1907, a joint memorial of the Government Council (*Tze-cheng Yuan*) and the Committee on Constitutional Investigation and Compilation, (*S'ien-cheng Pien Cha Kuan*) formerly known as

¹ This is due largely to the awakening of the people of the rich provinces that their revenue should not be appropriated for the use of another province—an awakening which is at once salutary and undesirable. Salutary because this marks the beginning of provincial self-government, inter-provincial emulation, and the end of communism in finance between the provinces. Undesirable, because it savors too much of sectional jealousy that exists more or less in many of the large western countries, where the economic differences between the sections are great.

the Committee on Investigation of Modern Politics and Government (*Cheng-chih Kóu Cha Kuan*), proposed an elaborate scheme for a nine-year's preparation for a constitutional government. The memorial gave much attention to the problem of local self-government. In 1911, the revolution broke out, nine years being too long to wait. On December 30th of the third year of the Republic (1914), the National Assembly enacted the so-called "Experimental Local Self-government Act" which provided that the unit of local self-government should be much smaller than the *Hsien* or district and that the district should be the smallest administrative unit of the Republic.

According to the provisions of the act, each district was to be divided into four or six self-governing divisions (*Sze-chih Chu*). Each division was to elect a mayor (*Chu tung*) from among the local gentry who were to receive no salary but might employ assistants whose compensation should be fixed by the district magistrate. Each division was also to elect a council of from six to ten as the case may be, which should authorize, pertinent to the affairs of the division, 1) charitable, educational, agricultural, industrial, commercial and communicational measures, 2) regulations pertaining to the carrying out of the programs for local self-government. 3) an annual budget including ordinary and extraordinary appropriations, 4) ways and means to meet these outlays, and 5) measures to care for the public properties of the division. The council should also review the annual financial report of the preceding year submitted by the mayor. The act also conferred full supervisory powers over the self-governing divisions upon the district magistrate who might require from time to time reports from any division council about its legislative business and the budgetary documents and who might examine the accounts of any division personally or through deputies.

According to the local self-government budgets of all the provinces and territories for the year 1913 which had been prepared before the passing of the Experimental Local Self-government Act, the total revenues of all the self-governing divisions of the nation amounted to \$38,668,745 and the total expenditures, to \$59,319,863.

According to the local self-government budgets in the third year of the Republic (1914), the total revenues of all the self-governing divisions amounted to \$38,499,332 while the total expenditures dropped to \$32,320,532.

Again, in the first year of the Republic (1916), the local self-government budgets show that the total revenues of all the self-governing divisions dropped to \$27,376,516 and their total expenditures dropped to \$18,820,996.¹

The high amount of the authorized expenditures for local self-government in the local budgets of 1913 was due to a new movement for local autonomy immediately after the establishment of the Republic. And the decreasing amounts in 1914 and 1916 must be attributed to the attempt at centralization of administration under the presidency of Yuan-shih-kai who aspired to be the Napoleon of China but failed miserably, ending his otherwise brilliant career by a tragic and sudden death, and apparently broken-hearted. A fitting penalty was this for a misguided ambition, but the price paid by the Chinese nation and people for his personal vanity has been entirely too great.

Before concluding this chapter, a few words may be said in connection with the central supervision of the provincial indebtedness since 1912.

China has, so far, no municipal indebtedness. The reasons for this unique characteristic of municipal finance in China are not far to seek. In the first place, "municipali-

¹ For a detailed statistical statement, see Appendix V.

ties have always been administered by appointees of the central government and hence loans contracted for municipal improvements are made in the name of the central government rather than in that of the various municipalities concerned.”¹ In the second place, “owing to the incomplete system of state laws, municipal government has not yet been fully developed, and thus municipalities are unable to contract obligations upon their own responsibility.”²

In regard to the provincial domestic loans, the central government usually adopts a laissez-faire policy. In regard to the provincial foreign loans, the central government has, without a single exception, maintained control, direction, and supervision over the provincial governments. The reasons for so doing are obvious. Politically speaking, “the power to contract foreign loans should be just as much centralized as the power over diplomatic and foreign affairs”.³ Foreign loans in China, whether they are national or provincial, are more or less political in character. The foreign capitalists in their investments in China have been heretofore actuated more by the desire to further the political interests of their respective countries than by the hope of making pure business profits. The story of “peaceful penetration” is too impressive on Chinese minds. In order to combat such attempts of the foreign capitalists, it is absolutely essential that only the national government should have the power of contracting foreign loans.

Fiscally speaking, inasmuch as China has not yet made any separation between the local and the national taxes and inasmuch every tax in the provinces thus constitutes a source of revenue for the national government, the provin-

¹ F. H. Huang, *Public Debts in China*, p. 13.

² *Ibid.*

³ F. H. Huang, *op. cit.*, p. 78.

cial governments should not mortgage it for a loan which is to be used exclusively for their own benefit.

Administratively speaking, absence of central control, direction, and supervision over provincial foreign loans would certainly lead to divergence of loan contracts which would render conversion and consolidation through the issue of a large loan very difficult. Again, there would be no parliamentary or ministerial control which is the foundation of a republican form of government. And finally, absence of central supervision would most probably result in signing away special privileges to foreign financial syndicates by the various provinces thus leading to loss of territorial rights and fiscal freedom.

Not only is it true that the provincial authorities could and can not contract any foreign loan without the knowledge and approval of the central government, but even the Chinese merchants and entrepreneurs also could and can not do so without first reporting to, or requesting the consent of, the central government. This rule is intended to avoid any complication that may arise out of such financial transactions between Chinese business men and foreign capitalists.¹

¹ For a typical example of the exercise of such authority by the Ministry of Foreign Affairs, see *British Parliamentary Papers, China*, no. 3 (1913), enclosure in no. 58.

CHAPTER III

ATTEMPTS TO SEPARATE LOCAL FINANCE FROM NATIONAL FINANCE

FROM the preceding two chapters, it is obvious that there have been confusion and chaos in the fiscal relations between the central, the provincial, and the local governments in China even during the new republican regime. Influenced by the wave of democracy throughout the whole world, China became convinced, even during the monarchical regime, that a system of autocratic and bureaucratic centralization of administration had become obsolete. To promote "local self-government", therefore, has long been the public policy of the Chinese government. Along with the movement for local self-government, there has emerged the issue of the separation of local finance from national finance. Indeed, local self-government can never be realized until and unless local finances are distinctly separated from national or central finance.

When China was defeated by Japan in 1895 and humiliated by the "Eight Allied Powers"¹ in 1900, there was a tremendous undercurrent for political reform. When Japan defeated Russia in 1905, this undercurrent became very active and the thinking Chinese were convinced that Japan's strength lay in constitutionalism: so they concluded that China, too, must be saved through constitutionalism. For this reason the Committee on Investigation of Modern

¹ These were Great Britain, the U. S. of America, Germany, France, Austria-Hungary, Italy, Russia, and Japan.

Politics and Government was instituted only to be reorganized about two years later and re-named the Committee on Constitutional Investigation and Compilation. With constitutionalism came the issue of local self-government, and with local self-government came the question of the separation of local finance from the national finances.

¶ In 1907, a joint memorial of the Government Council and the Committee on Constitutional Investigation and Compilation, as has been said in the previous chapter, proposed an elaborate program for a nine-years' preparation for the adoption of a constitutional form of government. For the financial reforms, the memorial provided as follows: in the second preparatory year, the working out of a tentative budget by the provinces; in the third preparatory year, the revision and the trial of the provincial budgets and the fixation of local taxation; in the fourth preparatory year, the settlement of the methods of public accounting, the formulation of a national budget, the formulation of the scheme of local taxation, and the determination of the rules for national taxation; and in the fifth preparatory year, the promulgation of the law of national taxation.

Looking towards the subordination of all financial affairs, central or provincial, to the central control of the Board of Revenue, as well as towards the possibility of a separation of local finance from national finance, a Committee for the Reorganization of the Financial Affairs of the Empire (*Tsing Li Tsai Cheng Chu*) was created by the Imperial Edict of the 10th January, 1909, in the Board of Revenue at Peking and, in the provinces, there were established the Branch Offices of the said committee at the Governor-Generals' and Governors' Yamen. Twelve sub-committees were subsequently appointed.¹

¹ Brunnert, *op. cit.*, pp. 186-7.

They were as follows:

1. The sub-committee on general affairs.
2. " " " for the Metropolitan District or Prefecture, the Province of Chihli and the Territory of Chahar.
3. " " " for the Manchurian Provinces (3 in number).
4. " " " for Kiangsu, Anhui, and Kiangsi provinces.
5. " " " for Shantung and Honan provinces.
6. " " " for Hunan and Hupeh provinces.
7. " " " for Fukien and Chekiang provinces.
8. " " " for Kuangtung and Kuangsi provinces.
9. " " " for Shensi and Shansi provinces and Urga, Suiyuan Cheng, Kweihua Cheng, Uliastai, Kobdo, Altai, etc.
10. " " " for Kangsu and Sinkiang provinces and Ili, Tarbagatai, Hsining, etc.
11. " " " for Szechuan, Yunnan, and Kweichow provinces and also Tibet.
12. " " " on archives.

The Board of Revenue had authority to depute officials to reorganize the finances of any of the provinces, and the Branch Offices of the committee were established in all the provinces with the object of furnishing it with information necessary to the drawing up of a State Budget.

As many voluminous reports as there were provinces in China were submitted by the respective Branch Offices to the Committee. These were subsequently published for public information. While explaining the provincial finances, these reports devoted a large portion of space to the discussion of the separation of the local from the national revenues, as well as of the local from the national

expenditures. The views set forth in these reports can readily be guessed. They were almost without a single exception prompted by an irresistible desire to please the Throne. None of these reports dared to suggest that the land tax should be local. This moot question will be dealt with later on.

The budget of the third year of the reign of *Hsuen Tung* (1910) separated the provincial and local expenditures from those of the central government. The former amounted to \$37,703,364 taels: the latter, to \$260,740,996 taels.¹

With the sudden explosion of the Revolution of October 10, 1911, this evolutionary constitutional development and financial reform in China, already undertaken, though reluctantly, by the imperial regime, was interrupted. The people of China, or rather the enlightened elements of China, were too impatient to wait six or seven years more for the convocation of a parliament and the adoption of a constitution. A republic was proclaimed by Dr. Sun Yat-sen, the first provisional President of the Republic of China, on January 1, 1912, at Nanking, in spite of the fact that China was not yet prepared for this form of popular government. The goal had been set, and the means of reaching it must be provided. Once more the issue of local self-government was at the front, and the problem of the separation of the local from the national finances was again its handmaid.

In June, 1912, the *Tutu* or the military governor (of the revolutionary era) of the province of Kiangsu, Mr. Te-Chuan Cheng, vigorously advocated both the separation of local from national revenues and that of local from national expenditures. He proposed that such expenditures as the interest charges of the foreign loans, the military expenses,

¹ For a detailed statement, see S. Y. Chia, *op. cit.*, vol. i, pp. 27-32.

the judicial expenses, etc., should be national; that such expenditures as the industrial, the educational, and the civil administration expenses should be provincial or local; that such revenues as the customs duties, the salt gabelle, and the other indirect taxes should be national; and that such revenues as the land tax and the other direct taxes should be provincial or local.¹ This proposal was strongly supported by many famous Chinese reformers and thinkers; most of them have been the staunch advocates of local self-government.

In the Winter of the same year, a special Committee of Investigation was appointed by the Ministry of Finance to consider and investigate the proposal. The following points were stressed in the report which the committee rendered:

(1) That the definitions of the words "national" and "local" must be distinct and without ambiguity. The term "local authorities" should mean the authorities of the self-governing localities alone, and should not include the local agencies of the central or national administration. Thus the expenses incurred by the latter should be, without fail, excluded from the list of local expenditures, and the local revenues should be exclusively appropriated for purely local purposes.

(2) That the hierarchy of territorial divisions of each province and the extent of their respective activities should first be settled, this settlement depending upon the settlement of the provincial system in the permanent constitution of the Republic. This is because the implications and complications of the provincial system are intimately connected with the amount of local expenditures. Pending the framing and adoption of a permanent constitution, a temporary division of the local governing bodies should be made in order

¹ S. Y. Chia, *op. cit.*, vol. i, p. 104.

to facilitate the separation of local revenues and expenditures from the national revenues and expenditures. The temporary division should be 1) the province, 2) the district, and 3) the division or *Hsiang*. Thus the report recommended the abolition of the circuit or *Tao* and of the prefecture or *Fu*.

(3) That a clear and distinct scope of power and function of the national and local administration should be effected. Those things which are beyond the power of the local administration, such as foreign affairs, national defense, administration of justice, etc., should belong to the national administration; and such things as police, education, communication, agriculture and commerce, finance, etc., should partly belong to the national administration and partly to the local administration.

(4) That a National Revenue Board (*Kuo Sui Ting*) should be created with as many branches in the provinces as necessary to take charge of the national revenues.

(5) That a financial commissioner should be created in each province to take charge of the general and specified national revenues and to supervise the provincial revenues and the land surtax (or the land additional tax) not exceeding 30% of the original levy.

In accordance with the above recommendations laid down by the Special Committee of Investigation, the Ministry of Finance proceeded, in 1913, to determine the amounts of the local revenues and expenditures and the amounts of the national revenues and expenditures. But the determination was rejected by the provincial authorities on the ground that the sphere of local and provincial activities and powers was too limited to render the local and provincial governing-bodies effective for the full development of local self-government.

A National Revenue Board was also established with many branches in the provinces to take charge of all national revenues and expenditures in the respective provinces, leaving the local and provincial revenues and expenditures in the hands of the provincial and local financial agencies. In the beginning there was constant conflict between the provincial and the central financial agencies. Among the financial reforms advocated by Dr. Chen Chin-tao, the well-known Yale man of China and the Minister of Finance of the Republic in 1916, was the creation of an inspection service for the national revenue collection in all the provinces.¹ It did not, however, materialize before his downfall.

The fifth and last recommendation of the Special Committee of Investigation for the creation of a financial commissioner for every province to head the branch office of the *Kuo Sui Ting* or National Revenue Board and to supervise the provincial finances was realized in 1917, under the administration of the then Minister of Finance, Mr. Liang Chi-chiao, the famous reformer and journalist of China, who has been an enthusiastic advocate of the separation of local finance from national finance and supported Mr. Cheng Te-chuan's proposal in 1912.

In the Winter of 1913, the Ministry of Finance drafted a revenue separation bill to be enacted into law by the first parliament of the Republic of China. Owing to the unexpected dissolution of the parliament by the then dictator-president, Yuan Shih-kai, the bill was never enacted into law. Its provisions, however, are interesting and worthy of our attention. They were later enforced through the treasury rulings and regulations in compiling and estimating the budgets. Presented in outline form, they are as follows:

¹ Singloh Hsu, "The Financial Condition of the Republic of China," *Banker's Magazine*, vol. 98 (February, 1919), p. 214.

(1) Separation of the existing revenues :

a. For national purposes ;

- (1) The land tax or taxes,¹
- (2) " salt gabelle,
- (3) " maritime customs duties,
- (4) " inland or regular customs duties,
- (5) " regular and miscellaneous duties,
- (6) " likin or the commodity tax or the transit tax,
- (7) " mining royalties,
- (8) " land-title tax,²
- (9) " business license tax,
- (10) " pawn-shop license tax,
- (11) " business license fee,³
- (12) " pawn-shop license fee,
- (13) " tobacco tax,
- (14) " wine tax,
- (15) " tea tax,
- (16) " sugar tax,
- (17) " fishery tax.

¹ The tax is really a composition of the land-capitation tax, the commuted grain tax, the rent of public lands, the receipt from sale of public lands, the commuted corvee, the additional rate, etc.

² The land-title tax includes (1) a tax on evidences of transfer, alienation, and conveyance of property from one person to another, (2) a tax on mortgages (on mortgagor), and (3) the deed inspection fee, new deeds being exchanged for the old. The rate on the first varies from 2%-6%; that of the second, from 1%-3%; and that of the third, from \$.60-\$5.50 a piece from province to province. The third also includes the registration fee. (S. Y. Chia, *op. cit.*, vol. i, pp. 403-22.)

³ The difference between the business license fee and the business license tax is that the former is paid periodically and once in a while (say once every 5, 10, etc. years when a license is granted or renewed), while the latter is paid annually, semi-annually, or quarterly. (S. Y. Chia, *op. cit.*, vol. i, p. 336.)

b. For local purpose ;

- (1) The land surtax or additional rate on the land tax,
- (2) " trade tax,
- (3) " live-stock tax,
- (4) " rice and cereal duty,
- (5) " opium duty,
- (6) " oil and sauce duty,
- (7) " vessel duty,
- (8) " miscellaneous commodity duties,
- (9) " business-shop duty,
- (10) " rental duty,¹
- (11) " theatre duty,
- (12) " carriage duty,
- (13) " prostitution license duty,
- (14) " tea-house duty,
- (15) " restaurant duty,
- (16) " meat duty,
- (17) " fish duty,
- (18) " butchery duty,
- (19) " carriage-bearer license duty,
- (20) Miscellaneous taxes and duties.

(2) Separation of the possible future revenues :

a. For national purposes ;

- (1) The stamp tax,²
- (2) " recording tax,
- (3) " succession or inheritance tax,
- (4) " income tax,³

¹ The rental duty includes (1) 10% tax on rentals of business shops, and 2.5% tax on rentals of private homes. (S. Y. Chia, *op. cit.*, vol. i, p. 399.)

² The stamp tax has been promulgated and executed since February, 1913.

³ The income tax regulations were promulgated in January, 1914, and again promulgated in January, 1921, for immediate enforcement. The proceeds are to be used for education and industrial development only. For a full text of the new income tax regulations, see *Millard's Review*, Feb. 5, 1921, pp. 526-8.

- (5) " production tax,
- (6) " business tax,
- (7) " note-issue tax.

b. For local purposes;

(1) Special taxes or revenues:

- (a) The house tax or habitation tax,
- (b) " business tax on those businesses which are free from the national business tax,
- (c) " consumption tax on those commodities which are free from the national consumption tax,
- (d) " octroi or admission charges to market places,
- (e) " personal property tax,
- (f) " domestic servant tax.

(2) Surtaxes or additional rates:

- (a) The additional rate on the national business tax,
- (b) " additional rate on the national income tax.

(3) Limitations on the local special taxes and surtaxes:

- a. The Ministry of Finance may prohibit any local special tax when it interferes with the national taxes or is regarded as impolitic by the Ministry.
- b. The maximum rates of the surtaxes;
 - (1) On the land tax, at most 30% of the original levy.
 - (2) On the business tax, at most 20% of the original levy.
 - (3) On the income tax, at most 15% of the original levy.
- c. If occasion demands any increase of the rates of

the surtaxes over and above the maximum rates, the local governing body concerned must first secure permission for the increase of the rate from the Ministry.

The above provisions sound very much like the fiscal system of France and that of Japan whose system of local administration has been chiefly influenced by, and in fact modeled after, that of France. The monopoly of all the most important and lucrative sources of revenue by the central government, the central control and supervision of local finances, and the system of surtaxes or additional: all seemed to be adopted wholesale from the bureaucratic France and the autocratic Japan. One could never be mistaken as to the direction in which the wind blew.

The first budget of the Republic of China (1913) was compiled in accordance with the above provisions. When the second budget was about to be compiled (in the Summer of 1914), the Ministry of Finance found that the national expenditures had increased greatly and that the local governing bodies did not effect satisfactory results in education, industry, and general local self-government. So the above provisions, formerly enforced through the treasury rulings, were now withdrawn and disregarded in preparing the third-year budget through the same process. This swing of the pendulum toward re-communism of finance and re-centralization of administration, which, as indicated in the preceding paragraph, had been already centralized enough, was to be explained, as already referred to in the previous chapter, by the imperial ambition of the Dictator Yuan Shih-kai who aspired to be the Napoleon The First of China but completely failed to be so by dying an ignominious death. With the downfall of Yuan Shih-kai and re-convocation of the dissolved parliament in 1916, the House of Representatives (*Chung Yi Yuan*) authorized the Ministry of Finance

to re-promulgate the provisions of the Revenue Separation Bill of 1913 to be followed by all the ministries and departments concerned in preparing the fifth-year budget of the Republic of China. It was from this time on that the Revenue Separation Bill acquired the status of law enacted by the properly constituted sovereign authority of the nation.

So much for the tentative separation of revenues. Now let us touch upon the tentative separation of expenditures for a moment.

According to the standard classification of expenditures set forth by the Ministry of Finance in 1912 as an aid to the preparation of the budget, the national expenditures include 1) the legislative expenses—national assembly or parliament only; 2) the administrative expenses—President and Vice-President and their staffs, cabinet and ministries, military governors and their staffs and offices in the provinces, civil governors and their staffs and offices in the provinces, and the district magistrates and their staffs and offices in the provinces; 3) military expenses—army and navy, inclusive; 4) expenses incurred by the Ministry of the Interior—including the expenses incurred in administering the affairs of the Metropolitan District or Kingshao, the police expenses in the provincial capitals and the treaty ports, and the expenses incurred by those offices under the direct control of the said ministry; 5) expenses incurred by the Ministry of Foreign Affairs—inclusive; 6) expenses incurred by the Ministry of Justice—inclusive; 7) expenses incurred by the Ministry of Education—including the expenses incurred by the special and higher educational institutions under the direct control of the Ministry; 8) expenses incurred by the Ministry of Communication in the operation of public utility and service industries, such as the government railroads, the government merchant marine, the post-office, the government telegraph and telephone establishments; 9)

outlays for public works which are national in nature and character; 10) expenses incurred in the colonization of the North-West under the direct control of the Ministry of Agriculture, Industry and Commerce; 11) expenses incurred in the collection of the national revenues; 12) redemption and interest payment of foreign loans—provincial foreign loans excluded; 13) redemption and interest payment of domestic loans—provincial domestic loans excluded; and 14) the pension, amounting to \$4,000,000 (Yuan) annually, of the imperial family of the defunct *Tsing* Dynasty.¹

The local (including provincial) expenditures comprise 1) the legislative expenses—provincial assemblies and district councils; 2) expenses for education—including all educational expenses in the provinces save those incurred by the national and private institutions; 3) the police expenses, including all public protection disbursements except those incurred by the national government in the Metropolitan District or the national capital and in the provincial capitals and the treaty ports; 4) expenses for operating public industries—including all except those incurred by the national government; 5) expenses for sanitation and health; 6) expenses for public charities; 7) outlays for public work—including all except those which are national; 8) redemption and interest payment of all public loans which are not national; 9) salaries and expenses of the mayors, their staffs and offices, and local gentry who are engaged in the administration of the local self-government; and 10) expenses incurred in the collection of the local revenues.²

This treasury ruling about the classification or rather the separation of expenditures between the national government on the one hand and the provincial and local govern-

¹ S. Y. Chia, *op. cit.*, vol. i, pp. 123-26.

² S. Y. Chia, *op. cit.*, vol. i, pp. 126-28.

ments on the other was withdrawn in 1915, simultaneously with the withdrawal of the revenue separation ruling, after the dissolution of the parliament and the subsequent dissolution of the provincial assemblies and the district councils. During the dark days of the Yuan monarchical plot, all revenues and expenditures, whether national, provincial or local, were consolidated so that the dictator's grip on the whole nation and people might be tightened and strengthened.

In 1916, the would-be emperor died; parliament and provincial assemblies reconvened; and the parliament authorized the Ministry of Finance to restore the old treasury ruling concerning the separation of local expenditures from national expenditures, in order to encourage local self-government.

So far as the mere attempts to inaugurate financial reform are concerned, they deserve, as a whole, favorable comment. The proposed reforms, while by no means perfect and satisfactory, are certainly an improvement over the old hodge-podge system. Unfortunately these attempts have been a failure. The unstable political condition would not give them a fair chance to work out satisfactorily. About a year or so after Yuan's downfall, there came another *coup d'état*. In the Summer of 1917, General Chang Hsun restored the abdicated boy Emperor, Hsuan Tung, to the throne and proclaimed the return of the Tsing Dynasty to power. He was, however, soon ousted and crushed by another Northern general, Tuan Chi-jui by name, and the Republic has since been re-established. Although General Tuan was, in many respects, an excellent soldier and a patriot, he did not know how to steer the ship of state by conciliation and toleration and a sense of poise. Neither did he enjoy the undisputed leadership of the Northern Military Party (*Pei Yang Pai*) which was the handiwork

of the late Yuan Shih-kai. Soon this military party was split into several factions, and China is now practically ruled by a feudal system of overlordship. Aggravating this already too chaotic and complicated political situation, the Southern Constitutional Party has established an independent government at Canton ever since the second dissolution of the parliament in 1917 under duress by the Ex-President Li Yuan-hung. Last year, the twice-dissolved parliament, now sitting at Canton, elected Dr. Sun Yat-sen, who was once the first provisional President of the Republic of China, as the legal President of the Republic, while in Peking there is another President, Dr. Hsu Shih-chang, and another parliament, both *de facto*.

Such has been the political condition in China during the last five or six years and the results of the attempts at the financial reforms can be imagined. To be sure, a distinction has been made between the national and the local revenues, but when money is needed for provincial expenses, the military governors always retain the installments and quotas due the central government for their own requirements. Attempts have been made to appoint officials direct from Peking to collect the national revenues in the provinces, but without success. The military governors usually issue no budget, and the annual receipts and expenditures in the provinces are open to no inspection of the central government. Taxes and imposts are collected as usual and new charges often made, but there is no account of the expenditure. Worse still, liquid assets of the provinces have been hypothecated by them in order to pay the soldiers, and worthless paper money has been issued by them in abundant quantity. In a word, the military governors are a law to themselves.

It is to be hoped that such a chaotic financial condition will come to an end when the military despotism shall have been

overthrown and the provincial assemblies shall have assumed control of the provincial finances. Learning a lesson from this bitter experience, it is highly important that in the future the central government should as far as possible collect all the national revenues directly without any intermediation from the provincial authorities, as is now the case with the *likin*, the specified national revenues, and to some extent, the inland customs duties and the salt *gabelle*.

Heaven is not reached in a single bound. The trouble in China in attaining a republican form of government during the last ten years or so is but natural and, in fact, inevitable. China is merely repeating the history of America and France in their struggle for a democratic form of government. When there is a realization of popular control of the purse strings on the central, the provincial, and the local governments, thus giving them proper fiscal relations with one another, China will without fail become one of the most prosperous, the most progressive, and the most liberal and democratic powers in the world.

Our hope is not without foundation, for there are, at the time of writing, already many cheering signs pointing to the desired goal. There has been during the last two or three years, a general popular movement for a better governance of the country throughout the whole of China. The system of military governorship (*Tuchun*) in each province, inaugurated by the late Yuan Shih-kai for obvious reasons, must go if the people are going to have their say in governmental affairs. In despair at the utter impotency of the central government at Peking, quite a few provinces are now trying to govern themselves without military overlordship or molestation and according to a supreme law, a provincial constitution. The public opinion in the country is overwhelmingly in favor of a federative form of government, after the American, the Swiss, or the Canadian fashion.

Thus the slogan of a certain wing of the former Progressive Party is "Create the states first, unite them afterwards." Already two provinces, Hunan and Chekiang, have either adopted or proclaimed a provincial constitution, framed by the respective provincial assemblies and approved by the respective electoral college and in the case of Hunan, it was voted upon by all the eligible voters of the Province and was passed by an overwhelming majority vote (18,744,106 vs. 575,230).¹ Its provisions are interesting.

With regard to legislation, such professional organizations as the educational associations, the agricultural associations, the industrial and labor associations, the chambers of commerce, and the lawyers' associations of the province can initiate any legislative measures concerning their respective interests and welfare through petition and the legislature is in duty bound to consider and deliberate upon them.² Initiative can also be effected by 1% of the total voters of the province signing a petition or by one-third of the district councils and municipal councils agreeing to take such action.³ With regard to finance, there are many departures from the old rut. Section 69 under Chapter 7 provides that all the provincial taxes are to be voted by the legislature and collected accordingly by due process and authority. Thus we see that the province is to be financially independent of the central or national government. The Constitution further provides that the annual minimum amount devoted to education in every budget should be 30% of the total expenditure of the province, and that the annual minimum amount set aside for the educational sinking fund should be 2% of the total estimated expenditure.⁴ The Hunan

¹ *Shang Pao* (*The Shanghai Journal of Commerce*), Shanghai, China, Dec. 19, 1921,

² Chapter vi, section 65 (*Shang Pao*, Dec. 12, 1921).

³ Chapter vi, section 66 (*Shang Pao*, *ibid.*).

⁴ *Shang Pao*, Dec. 13, 1921.

province has suffered most from the so-called Civil War between the North and the South (or between Peking and Canton). Under such circumstances, no wonder that it has been compelled to be the pioneer and leader of the constitutional and federative movement.¹

The Chekiang Provincial Constitution, adopted by the legislature, is composed of 18 chapters and 158 sections.² The autonomy of the province is declared in the preamble. There are, according to the provisions of the constitution, five more or less independent governmental organs: the legislature or *Sun-yi Yuan* which is elected by popular vote, the chief executive or governor (*Sun Chang*) who is also popularly elected and the executive council or *Sun Cheng Yuan* whose members save the governor are elected by the legislature, the judiciary or *Fa Yuan* (11 members or judges who are popularly elected), the censorate or *K'ien Cha Yuan* (11 members or censors who are also elected by popular vote), and the board of audit or *Sin Chi Yuan* (11 members who are elected by the legislature). The insertion of the Censorate in the constitution as a distinct governmental organ is quite a novelty. It may be explained, however, as due to the influence of three factors. First, there has been a

¹ The forces engendering this movement in Hunan have been well summarized by an anonymous writer in the January 1st issue of 1922 of the *Shun Pao* or the *Shanghai Times*, the oldest newspaper in China, as follows:

- (1) The absence of a strong and legally constituted central government.
- (2) The official (both military and civil) oppression.
- (3) The political awakening and consciousness of the Young China.
- (4) The spread of the doctrine of federalism.
- (5) Party tactics of the *Kuo Ming Tang* to use federalism as a means to loosen the Peking military grip on the people.
- (6) The break-up of the old parties.

² The *Jen Pao* or the *Morning Post*, Peking, China: September 20-30, 1921.

strong sentiment for some kind of machinery to check the growing abuses of power by officialdom. The newspaper as an organ of public opinion does not exert so much influence and restraint upon the conduct of the officials in China as in the West. We might say that this special organ is, partly at least, to take the place of the newspaper. Second, the salutary results of such an organ during the late *Tsing* Dynasty have been well recognized by the people. And third, the advocacy by Dr. Sun Yat-sen of a Five-Power Constitution (*Wu Chuan Hsien Fa*)¹ has certainly produced some impression on the minds of the framers of the constitution. It purports to act as a check on the abuses of power or the negligences of duty of all the other four branches of the provincial government, being itself subject to the tribunal of public opinion only.

Such new measures as the recall and the initiative are also incorporated in the constitution. The *Hsien* or district is made the largest administrative, as well as the local self-governing division of the province. Thus the circuit or *Tao* is done away with. Municipalities are to be created and chartered by the legislature. Any city having 150,000 inhabitants or over may apply for such a charter. A district is to have a magistrate appointed by the governor who is to be assisted by an executive council when administering the district self-government. There is also a district council of from 20-40 members, all to be popularly elected. The district is to be divided into cities or *Shih* (having a population of 10,000 or over) and towns and villages or *Hsiang* (having a population less than 10,000). What interests and concerns us most, of course, is the financial provision in the constitution. All the provincial taxes are to be the sources of provincial

¹ The five powers are legislation, execution, administration of justice, civil service examination and impeachment.

revenue and are to be voted by the legislature before their collection by due process and authority. In regard to its fiscal relation with the national government, it provides that not more than 30% of the total annual revenues of the province should be contributed towards the support of the national government.¹ It further provides that the minimum annual expenditure for education should be in no case less than 20% of the total annual expenditure; that that for industrial development should be in no case less than 7%; that that for improvement of communication and transportation, should be in no case less than 5%; and that the reserve for the educational sinking fund should be in no case less than 3%.

Besides the above two provinces, there are several other provinces that are in process of framing and adopting a provincial constitution. Chief among these are Kiangsu, Szechuan, and Kuangtung. Szechuan, being practically in the same bad situation as Hunan, has already declared provincial autonomy through General Hiung Ke-wu. Hupeh is another province which has caught the contagious spirit of provincial self-government, being just a little better off than Hunan.

Although somewhat behind Hunan and Chekiang in constitution-making, Kuangtung is the first province which has abolished the abominable system of provincial military governorship and which has actually put into practice and extended local self-government. On May 23, 1920, the provisional municipal government law for all the province was proclaimed. On Feb. 15, 1921, it was actually applied to the City of Canton, the most populous city in China, when a municipal government of Canton was instituted on a modern scale with a modern city charter as its

¹ Chapter x, section 101.

constitution.¹ The complete governmental machinery of the municipality is composed of an advisory council of thirty members,² a mayoralty assisted by six departments, and a board of audit. For the time being, ten of the councilmen as well as the mayor are appointed by the governor; but when the charter shall be formally accepted and ratified by the people of the city in the next five years, they shall become elective. The present arrangement is only a makeshift. The functions of the advisory council are to suggest new laws, to advise on their carrying out, and to have equal voice in the management of municipal affairs. The six departments under the jurisdiction of the mayor are 1) the Department of Finance, 2) the Department of Education, 3) the Department of Public Works, 4) the Department of Public Safety, 5) the Department of Public Health, and 6) the Department of Public Utilities. The duty of the Board of Audit is to check up and audit all the city accounts and to prepare the financial as well as the other reports.

The budget of the city of Canton for the first year 1921-1922 (beginning July 1st) is worthy of our attention, inasmuch as this is the first municipal budget in China since the dawn of civilization. Briefly, it runs as follows:³

¹ *Shun Pao*, Jan. 1, 1922; Philip Haddon: "The Government of South China," *China Review* (a monthly published by China Trade Bureau, N. Y.), Sept., 1921, pp. 137. For a full text of the city charter of Canton, see S. Y. Wu, "Canton Municipal Progress," *The Weekly Review of the Far East*, vol. xix, no. 1, pp. 9-10.

² Ten members are to be appointed by the governor (provisionary, of course), ten are to be elected by popular vote, three are to be elected by the chamber of commerce of Canton, three are to be elected from among the labor elements by the labor unions of the city, and one each to be chosen by the education association, the medical association, the engineers' association and the lawyers' association of the city respectively.

³ S. Y. Wu, Canton Municipal Progress, *The Weekly Review of the Far East* (formerly the *Millard's Review of the Far East*), Dec. 3, 1921, pp. 67.

Revenues :

(1) House rent tax	\$645,045
(2) Sing-song girl license	518,000
(3) Theatre license	77,700
(4) Cinema license	12,420
(5) Rubbish disposal	7,200
(6) Boat license	28,956
(7) Rickshaw license	291,458
(8) Market stall rentals	3,583
(9) Rent from Taishatou Island	2,170
(10) Public lands converted	63,520
(11) Provincial government subsidies	240,000
(12) Physicians' registration fees	5,000
(13) Special business registration fees	1,270
(14) Building permits	3,600
(15) Blind singers license	1,500
(16) Miscellaneous duties and fees-novelties....	500
(17) Fines from Department of Public Safety...	15,180
(18) Confiscations from Dept. of Public Safety.	414
(19) Fines from Department of Public Works .	960
(20) Municipal gazette fees	800
(21) Receipts from Municipal Hospital	1,200
(22) Title deeds, etc.	49,000

Total revenues	\$1,969,476
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Expenditures :

(1) Mayor's office	\$51,192
(2) Department of Finance	62,652
(3) Department of Public Safety	1,345,042
(4) Department of Public Works	538,130
(5) Department of Public Health	274,936
(6) Department of Education	543,670
(7) Department of Public Utilities	40,252
(8) Board of Audit	28,392

Total expenditures	2,884,266
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Deficit ¹	\$914,790
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Compared with the budgets of the City of New York,

¹ This deficit was to be stricken off by two contemplated new duties: the license duty on patent medicines and that on the tea houses.

Chicago, London, Paris, etc., the revenues and expenditures of Canton are truly insignificant. But we should not overlook the fact that this is the first budget of a newly created municipality in a conservative and tradition-ridden country where the art of local self-government has never, so far, been exercised in a larger area than the village which usually consists of a few hundred families.

To conclude, we may state with a reasonable degree of safety that the federative movement will no doubt greatly improve the present confused fiscal relations between the central and provincial governments in China. The provinces, when not interfering with the proper jurisdiction of the national government, will vote upon their own taxes and other sources of provincial revenue without any meddling from the latter. It seems that it is only a question of time when the central or national government will no longer be able to dictate policies to, and appoint the officials of, the provincial governments. The budget system adopted by the City of Canton and the subvention system adopted by the Province of Kuangtung, as applied to the minor civil divisions for local self-government, will further improve the existing chaotic fiscal relations between the provincial and local governments. Thus the provincial and local finances will be separate, at least in part. These latest attempts at political and fiscal reforms in the provinces are certainly again a step forward towards the desired goal, as compared with the earlier half-hearted endeavors to separate local (including provincial) finance from national finance.

CHAPTER IV

THE SYSTEMS OF NATIONAL AND LOCAL FINANCE OF THE LEADING COUNTRIES AND WHAT CHINA CAN LEARN FROM THEM

THUS far we understand that the fiscal relations between the central, the provincial, and the local governments in China are by no means satisfactory. The earlier attempts at readjustment were mere makeshifts: the latter ones are more thoroughgoing. But a new program of reform, both political and fiscal, based upon sound political and fiscal principles, is needed. Before we proceed to formulate such a program, we must, however, first investigate and study the systems of national and local finance (and incidentally the systems of local administration) of the leading countries in the world. Let us begin with the centralized countries.

Central and Local Finance in France.

The French political system is a very centralized one, and with this centralized political system comes its handmaiden, a centralized fiscal system. France is divided into about 86 departments which in turn are subdivided into about 362 arrondissements which in turn are subdivided into about 2,868 cantons which lastly are further subdivided into about 36,097 communes. "These divisions form a gradual hierarchy of local administration. No other divisions conflict with them."¹ The canton is purely an electoral and judi-

¹ J. J. O'Meara, *Municipal Taxation at Home and Abroad*, p. 160.

cial unit. The prefect of a department represents the central government at Paris and acts as its agent. In each *arrondissement* there is a Sub-Prefect and in each *commune*, a Mayor. "The Sub-Prefect and Mayor stand towards their divisions more or less in the position that the Prefect does towards its department."¹

The prefect is nominally appointed by the President of the French Republic, but actually by the Minister of the Interior. He is at once the agent of the central government and a local officer. His powers extend to all matters affecting the department.² To enumerate but a few, he supervises the execution of the laws; maintains vigorous control over all administrative officials of the department even annulling their acts; furnishes the central government information and advice concerning his department; nominates persons to a variety of subordinate offices; oversees the communal affairs some of which must have his assent before becoming effective; issues by-laws and ordinances, etc. Assisting the prefect is the Prefectural Council which is composed of three or four lawyers, with administrative qualifications, appointed by the Minister of the Interior. This council acts as the administrative court of the first instance concerning the disputes about direct taxes; as a Board of Control, checking and supervising all receivers of public money and authorizing prosecution for malversation or neglect; and as an Advisory Board to the prefect.

The legislature of a French department is the *conseil général* whose members are elected by popular vote from each *canton*. Its powers are limited to (1) apportioning direct taxes among the *arrondissements*, (2) adoption of

¹ O'Meara, *op. cit.*, *ibid.*

² For a detailed description of the powers of the French prefect, see J. Watson Grice, *National and Local Finance*, p. 123.

measures concerning the construction and upkeep of highways, bridges, canals, school-buildings and asylums, (3) discussion and voting of prefectural budget, (4) voting of additions to the direct contributions necessary for its own services within the limits allowed by the national legislature, (5) confirmation of financial arrangements made between the department and the communes by the prefectural council, (6) raising departmental loans, (7) distribution of the State subventions and grants to public institutions, and (8) some control over communes in matter of additions to local taxes. Its measures and those of its Standing Committee or Permanent Delegation during its recess may be vetoed by the central government which has also the power to dissolve the general council.

The sub-prefect of the *arrondissement* is also appointed by the central government and serves as the district representative of the prefect. The *arrondissement* council of nine is elected by universal suffrage and its only function is to allot among communes their quota of the direct taxes assigned to the *arrondissement* by the general council of the department. It may be dissolved and its measures, vetoed, by the central government.

As has already been said, the *canton* is a mere electoral and judicial area. It normally contains a dozen communes.

The commune is a corporate personality and the real unit of local self-government in France. It varies in size and population. It has a mayor as its executive and a council (from 10-36 members) as its legislature which is elected by universal suffrage for four years. The mayor is elected by the communal council for the same period. He also acts as the representative of the central government. Both the council and the mayor are under the stringent tutelage of the Ministry, acting through the prefect. All decisions must be reported to the prefect and

his approval is required for every important detail of administration. The budget is perforce submitted to him, and he may, by virtue of his office, compel the council to provide for all obligatory expenditures, laid by the national legislature on the commune; as to optional expenses, and for insuring local solvency, he may refuse his approval, which is necessary to render the budget executory. The mayor may be suspended from office for a month by the prefect; for three months, by the Minister of the Interior; and removed from office by Presidential order. The communal council may be suspended and dissolved by a ministerial decree through the action of the prefect.

Strict as is the administrative control over local affairs and finance, the legislative control over local finances is no less stringent, and this is secured by the fact that any local tax can be levied only when it is authorized by a law, and that "it is only within the limits and conditions of the law that the local authorities have the power of regulating the local taxes."¹ Although the *Chambre des Députés* gives a general grant of powers to the local bodies which may do anything not expressly forbidden by law, for which they can obtain administrative approval, it "lays down in a general manner the primary necessity of their bearing certain expenditure which is of general utility and which the State wishes to place at their charge," and itemizes the "obligatory expenditures." The local bodies remain free, within the limits of the finance laws, to exercise their discretion as to "optional expenditures."²

This legislative control of local finance both in respect of the kind and amount of taxation which may be raised to

¹ Grice, *op. cit.*, p. 127.

² For a detailed description and itemization of the "obligatory expenditures" of the departments and communes, see Grice, *op. cit.*, pp. 7-8, 173-4.

a uniform maximum applicable to the whole country purports to secure at once the national minimum of efficiency in certain services, to allow local variations in others, and to check any possible extravagance, although that maximum may be overridden under special conditions and by special authorization.¹

Before the imposition of a general and a scheduled (*cédulaire*) income tax by the general income tax law ² of July 15, 1914, and the schedule income tax law ³ of July 31, 1917, both having taken effect since Jan. 1, 1918, there were four direct contributions on which the local bodies could vote additions: they were (1) the *contribution foncière* (real estate tax), (2) the *contribution personnelle et mobilière* which was in fact a personal tax plus a personal property tax (or rather a fixed poll tax, which was three day's labor commuted at the maximum amount of 5.50 francs, plus a tax on the rentals of houses and apartments), (3) the *contribution des portes et des fenêtres* (door and window tax), and (4) the *contribution des patentes* (license tax on most trades and professions).⁴

With the exception of the *contribution foncière*, the other three taxes have been replaced for state purposes, since 1918, by the schedule income tax of eight categories.⁵

¹ Grice, *op. cit.*, p. 120.

² For the French text of the law, see L. Bocquet, *L'impôt sur le revenu*, Paris, 1921, 2nd ed., pp. 601-5.

³ For the French text of the law, see *ibid.*, pp. 611-25.

⁴ Grice, *op. cit.*, p. 131, also O'Meara, *op. cit.*, pp. 165 *et seq.*

⁵ They are income from houses, income from land, income from tangible personalty and capital, income from business profits, income from agricultural profits, income from wages and salaries, income from professional earnings, and income from mining enterprises (*redevance proportionnelle des mines*). (Cf. Seligman, *The Income Tax*, p. 277; Bocquet, *op. cit.*, pp. 611 *et seq.*; and Bocquet, *Instruction administrative du 30 mars 1918 pour l'établissement des impôts cédulaire et l'impôt général sur le revenu*, Paris, 1918.)

Pending further legislation for the establishment of new departmental and communal taxes, the additional centimes on the three abandoned taxes are still levied on the fictitious principals (*principaux fictifs*) which are based on the real principals of 1917, modified by the price movements of the taxable objects.¹ The central assessors continue to assess yearly these taxable objects so that the resultant fictitious principals may serve as the "skeleton" (*carcasse*) to support the "grafted additional" (*centimes greffés*).²

To outline the departmental and the communal financial resources in France during this transitional period, they are respectively as follows:³

A. Department:

1. General ordinary centimes (its maximum to be annually voted by the general council and determined by the finance act):
 - a. Additional centimes on the *contribution foncière* (with building and with no building) and on the *contribution personnelle-mobilière* (maximum: 25 centimes), and
 - b. Additional centimes on all four contributions (maximum: 8 centimes).
2. Special ordinary centimes (*centimes ordinaires spéciaux*) on the expenses of road maintenance and on the four contributions in case the total revenue for the purpose is still insufficient (maximum: 15 centimes). The condition for the latter addition is, however, not rigorously kept. The department may apply it for other purposes than communication in renouncing state subvention for roads.

¹ Edgard Allix, *Science des finances et législation financière française*, Paris, 1921, 4th ed., p. 821.

² Allix, *op. cit.*, pp. 821-2.

³ Allix, *op. cit.*, pp. 796 (footnote), 822-33.

3. Ordinary centimes for insufficiency of revenue-additionals on the four contributions (maximum: 20 centimes). (Before 1907, it was known as "*centimes extraordinaires*"). A decree in the Council of State is required if the fixed maximum is surpassed.
4. Extraordinary centimes added on the four contributions (maximum: 12 centimes). A decree in the Council of State is required, if the fixed maximum is surpassed.
5. Certain special centimes authorized by special acts: centimes for the completion or revision of the cadastre.
6. One-third of the decime on the turnover tax (*la taxe sur le chiffre d'affaires*) collected by the State, and One-fifth of the duties on automobiles also collected by the State. A part of the yield of the automobile duties forms a common fund (*fonds commun*) which is distributed among the departments in proportion to the mileage of their roads.
7. Receipts from public properties of the department.
8. Fees (*produit de la copie de pièces d'archives*) and tolls (*péages*).
9. State subventions (to the poor departments only).
10. State subventions, communal contributions, and private donations for charitable and communicational purposes.
11. Revenues from public enterprises such as railways and tramways.
12. Extraordinary revenues such as borrowings, etc.

B. Commune:

1. Returns from communal domain and investments.
2. Fees and charges: duties on municipal weights, markets, slaughter-houses; rubbish removal; highway privilege duties, etc. (This class of communal revenue furnishes about one-third of the total resources of a commune.)

3. Miscellaneous revenues such as penalties and forfeits, hunting permits (20 francs per permit), and state and departmental subventions for certain services (such as cadastre, connecting roads, gratuitous medical assistance, etc.).
4. Taxes attached to the state taxes:
 - a. Additional centimes
 - (a) *Centimes ordinaires*: 5 centimes on the *contribution foncière* and the *contribution mobilière* and 8 centimes on the fictitious principal of the old *patentes*. The former is optional; the latter is obligatory.
 - (b) Extraordinary centimes to defray the expenses of public utilities and to meet budgetary deficits, the maximum to be first fixed by the general council and then by the annual finance act. (Some of them must be authorized by special acts.)
 - (c) Special centimes for specific purposes such as the revision of cadastre, connecting and country roads, the country watchmen expenses, public medical treatment, etc.

All the above centimes, except the 5 ordinary centimes and the centimes for cadastre, are additions on the four contributions.
 - b. Certain state taxes surrendered to communes as compensation for the cessation of state subventions as well as for the suppression of the octroi on beverage, by the law of Feb. 20, 1918:
 - (a) 20% of the horse and carriage tax,
 - (b) One-sixth of the principal of the proportional mining royalties,

- (c) Two-thirds of the decime on the turn-over tax,
 - (d) Participation in the allocation of a common fund, consisting of a portion of the state beverage taxes (*sur les boissons hygiéniques et sur l'alcool*). The former is distributed among the communes in proportion to their beverage consumption in 1913, and the latter, in proportion to their population.
5. Special communal taxes:
- a. Obligatory tax: dog tax.
 - b. Optional taxes (*impôts facultatifs*) to be authorized by the Parliament only (as the Paris domestic servant and piano taxes) or by the Parliament and the prefect both (such as the communal theatre and cinema taxes).
6. Miscellaneous and extraordinary:
- a. Protestation or road tax in money or in labor (3 days for the connecting roads and one day for the country roads).
 - b. Loans and borrowings.

As regards the central fiscal administration which, to some extent, pertains to the local finance, there are (1) the departmental *trésoriers-payeurs généraux*, (2) the arrondissement *receveurs particuliers des finances*, and (3) the communal tax collectors proper or *percepteurs* whose number in each commune depends upon its size and population.¹

Besides the Council of State which is at once the center and the pivot of the whole administrative system of France, the Court of Accounts is the second central supervising body. Under its survey and audit pass the whole of the accounts of national and departmental revenue and expenditure. It

¹ Grice, *op. cit.*, p. 127.

also inspects all the accounts of the communes and public institutions whose revenues annually exceed 30,000 francs. It has legal powers for the production of any evidence, and may penalize and surcharge any officials and authorize prosecution. It consists of life members appointed by the President of the Republic and presents to the Chamber an annual report which surveys the whole financial administration of both the central and local organs of government and may contain any suggestions for reform.¹ The commune, whose annual revenue is below 30,000 francs transmits its budget and accounts to the Prefect or the Prefectural Council for approval and audit. Fines of 10 to 100 francs per month for delay are imposed on accountants of the smaller communes, and of 50 to 500 francs, in the case of the larger ones. These amounts the communes concerned are bound to pay.²

To be legal, any departmental budget must be submitted to the Minister of the Interior, who submits it in turn to the office of departmental accounts and afterwards to the Council of State. When approval is granted, the Minister publishes it.

Another important fiscal relation between the central and the local governments in France should not be overlooked, and that is the *Caisse d'Amortissement et des Dépôts et Consignations*. This according to M. Léon Say, the well known French economist, is virtually a State Bank which makes loans to the State, the departments, the communes, etc., besides its other multitudinous activities.³ This *caisse*

¹ Grice, *op. cit.*, p. 122.

² Grice, *op. cit.*, pp. 315-6.

³ On pp. 64-65 in his book, *Les Finances*, Léon Say says as follows:

"*Cette caisse... est une colossale banque d'Etat, car sauf l'escompte des effets de commerce, il n'est pas d'affaire de banque qu'elle n'entreprenne, n'ait entreprise, ou qu'elle ne puisse entreprendre. Elle prête à*

was established in 1838 after the abolition of direct state loans to the localities which were unconsciously led to extravagance due to the low rate of interest charged by the central government. Another bank almost of the same nature is the *Crédit Foncier* (established in 1852) which in 1898 advanced to localities 45% of their borrowings, chiefly in two accounts: the *caisse des chemins vicinaux*, and the *caisse des écoles*. The *Crédit Foncier* has a sort of quasi-monopoly of communal loans and the State does not sanction any communal loan advanced by the *Caisse d'Amortissement* at a lower rate than the *Crédit Foncier*. In 1868, a special central fund financed by the issue of central Exchequer bonds was created for the construction of roads and schools in the departments and localities. It was, however, subsequently abolished in 1893: its effects were by no means salutary, as its interest rate was low, causing local extravagance and central embarrassment.¹

In 1898, the period allowed for repayment was raised to 30 years; loans of longer duration require special authority and that is no longer given by the legislature, but by a decree of the Council of State.²

Thus the general council can definitely vote departmental loans whose repayment term does not exceed thirty years, and whose interest and amortisation charges do not surpass the ordinary and extraordinary financial resources of the department. All departmental loans over thirty years must be approved by the Council of State.

l'Etat, aux départements, aux communes; elle reçoit de l'argent en compte courant, et bonifie des intérêts à ses déposants; les dépôts qui lui sont confiés elle les place en rentes sur l'Etat, en obligations de chemins de fer, en valeurs diverses; ... elle est représentée sur toute la surface de la France par des correspondants, qui sont en même temps des fonctionnaires publics".

¹ Grice, *op. cit.*, pp. 331-2.

² Grice, *op. cit.*, p. 333.

In 1902, a change came in the position of the prefect's supervision and right of veto over municipal loans. The municipal council can henceforth determine finally on all loans having up to 30 years repayment period, so long as their interest and amortization changes do not go beyond the maximum of extraordinary centimes allowed by the annual Finance Act and fixed by the general council. Loans of the same period, but loans necessitating more centimes, must have the approval of the prefect, and all loans for over 30 years (or their amount exceeding 1,000,000 francs) must be approved by decrees of the President issued in the Council of State. All lottery loans, departmental or communal, must be authorized by a special law.¹

During the World War, short-term bonds were resorted to by the departments and the communes as a result of the shortage of revenue. This process of raising revenue was sanctioned by the central government through a ministerial decree and through the final ratification by Parliament in 1915. The law was still effective in 1920. The emission must first be approved by the Council of State.²

Central and Local Finance in Japan.

Japan is one of the countries which have adopted the French system of local administration. Hers is just as centralized and bureaucratic as the French. Although during the earlier days, Japan's administrative system was modeled after that of China, her system of local administration resembles the French more than the Chinese, for Japan has always made theory and practice coincide, which is usually not the case in China.

Japan up to Dec. 31st, 1918 was territorially and administratively divided as follows.³

¹ Allix, *op. cit.*, pp. 838-839.

² Allix, *op. cit.*, p. 839.

³ *The Twentieth Financial and Economic Annual of Japan*, 1920, p. 2.

Sections (Do)		Prefec- tures (Fu, Ken)	Rural Districts (Gun)	Cities (Ku)	Towns (Cho)	Villages (Son)
Mainland	Kokoku . . .	6	74	9	180	1,318
	Kwanto . . .	7	73	8	289	1,588
	Kokuriku . . .	4	43	7	104	978
	Tosan	3	46	5	88	848
	Tokai	4	55	9	140	1,040
	Kinki	5	69	8	135	1,240
	Chingoku . .	5	68	8	132	1,401
Shikoku		4	36	5	87	720
Kiushui		7	80	13	148	1,382
Okinawa		1	5	2	1	52
Hokkaido		1	87	5	29	272
Total.		47	636	79	1,333	10,839

All the administrative and executive officials from the mayor of the city up are appointed by the emperor. The towns and villages have elective assemblies by which the mayor and other officials are chosen. In 1880, the promise of prefectural assemblies was fulfilled, but they do not possess absolute control of their local affairs—in fact, they are not entirely independent of the central government; in all cases the financial ratification rests with the prefect who is appointed by the Ministry of Home Affairs which has the power to suspend the assembly at its discretion. In 1889, the right of local self-government was extended to cities, towns, and villages, upon a similarly centralized scheme. The mayor of the city is without exception appointed by the central government and manages the municipal affairs through both a “city council” and a “city assembly”; the latter is a popular representative body, and the former is elected by the latter.¹

¹ Ernest Wilson Clement, *A Short History of Japan*, Chicago, 1915. pp. 122-3.

The system of central and local finance in Japan resembles that of France even more closely than the administrative system. Among other things, the central government imposes the land tax, the income tax, the business tax (on sales of goods; banking and insurance; money-lending and hiring of goods; manufacturing, printing, publishing, and photography; warehousing; railway transport; contracting; letting of assembly rooms and restaurants; inn-keeping; agency; commission, brokerage and trust business), the mining tax, the tax on stock exchanges or bourses, and the tax on patent medicines: on all of which the local bodies impose additional rates.¹ Thus, according to the *Résumé Statistique de l'Empire du Japon* for 1921 (p. 150), the prefectural receipts from surtaxes for the period of 1908-1918 were as follows, including the central subsidies:

The land rate	303,944,000 yen
The business rate	27,246,000 "
The income rate	16,025,000 "
The mining rate	2,197,000 "
Central subsidies	78,110,000 "
Total	427,522,000 "

Besides, the prefectures levy rates on each household—which is not much different from a poll-tax, being imposed on every member of the household. The business tax as imposed by the prefectural treasury is levied on those occupations that do not pay a national tax, such as restaurants, public performances, ships, vehicles, etc.—in all about fifteen. Grants are for police accounts, and subventions are made in connection with epidemics and leprosy, river work, industrial encouragement, etc.²

The receipts of the rural districts, which correspond to

¹ *Japan Year Book*, 1913-1914, pp. 37-60.

² *The Japan Year Book*, 1919-1920, p. 643.

the French *arrondissements*, for the same period were as follows: ¹

Communal (cities, towns, and villages) contributions	71,050,000 yen
Central subsidies	633,000 "
Prefectural subventions	8,701,000 "
Total	80,384,000 "

Like the French *arrondissements*, the Japanese rural districts have no taxes to impose. Their revenue consists chiefly of contributions, grants and subventions.

The receipts of the cities, towns, and villages from the surtaxes and subsidies, etc, for the same period were as follows: ²

The income rate	52,369,000 yen
The business rate	127,097,000 "
The indirect tax rate	88,000 "
Central and prefectural grants	115,256,000 "
	294,810,000 "
Own sources of revenue:	
1. The land value tax	113,063,000 "
2. The house tax	670,272,000 "
Grand total	1,078,145,000 "

Besides, the cities, towns, and villages have other sources of revenue, such as the area-rate, the land-transfer duty other than by inheritance which is taxed by the central government, and tax on income not subject to the imposition of the national income tax. Grants and subventions from the central and prefectural treasuries are chiefly in connection with the trouble and expense incidental to the collection of their taxes. ³

¹ *Resumé Statistique de l'Empire du Japon*, 1921, p. 152.

² *Resumé Statistique de l'Empire du Japon*, 1921, p. 153.

³ *The Japan Year Book*, 1919-1920, p. 644.

While the local bodies receive grants and subventions from the central authority, they also contribute sums to the latter in connection with the local public works. From 1916 to 1920 (fiscal year), these contributions amounted to 22,110,000 yen.¹

As is the case in France, there is a legal limit to every local rate on each of the national taxes. This limit may be, however, more or less altered with the consent of the central authority. The legal limit and the average rates are not infrequently divergent. For instance, the legal limit and the average rates for the fiscal year 1919-1920, were as follows: ²

<i>Name of Local taxes</i>	<i>Average Rates</i>	<i>Legal Limit</i>	<i>Excess</i>
Dwelling land rate	16.6%	13%	3.6%
Other land rate	40.7%	32%	8.7%
Business rate	13. %	11%	2. %
Income rate	49%	4%	.9%
House tax	—	no	—

As regards local indebtedness, there are two categories of local loans: those for the raising of which central approval is required and those for the raising of which central approval is not required. According to the *Twentieth Fiscal and Economic Annual of Japan* (1920), the former amounted, up to 1920, to 417,199,638 yen; and the later, to 432,249,218 yen.³

Central and Local Finance in Germany.

Quite similar to, yet somewhat different from, the French and the Japanese administrative and fiscal system is the German system of local administration and of local and

¹ *Resumé Statistique de l'Empire du Japon*, 1921, p. 146.

² *The Japan Year Book*, 1919-1920, pp. 643-4.

³ Pp. 38-39, Supplement table I and Supplement table II.

central finance. Similar, because they are all bureaucratic; different, because Germany was a federated Empire, while France and Japan have always been unitary.

Before the advent of the Republic in 1918, the German Empire was a federated one, composed of twenty-five semi-independent States: the four kingdoms, the six grand-duchies, the five duchies, the seven principalities, and the three free cities.¹ These states varied in size and population. Prussia was the largest of them all and played a very important role in the governance of the German Empire before 1918. The Bundesrat and the Reichstag enjoyed enumerated powers, while the States retained the residual ones and their officials executed the imperial laws for the imperial authority.²

The chief sources of imperial revenue were the indirect taxes (or the impositions on processes and things, such as the excise, the stamp duties, and the customs duties), the profits of government enterprises, the administrative revenues, and the matricular contributions from the various States, the quotas of which were determined by 16 cents or nearly 4/5 mark per inhabitant.³ These contributions or advances made by the individual States were to meet deficits in the imperial finances. Such contributions were not reimbursable, but they might be refunded at the end of the year to the separate States in such proportion as the unexpended ordinary receipts exceeded the necessary expenses. In 1879, with the introduction of Bismarck's protective tariff into Germany, it was foreseen that an increase of customs revenue would occur, and by the so-called *Franken-*

¹ Ogg and Beard, *National Governments and the World War*, p. 449.

² C. J. H. Hayes, *A Political and Social History of Modern Europe*, pp. 398, 400.

³ *U. S. State Paper*: House Documents, vol. 118 (serial no. 6300), p. 522; Senate Documents, vol. 403 (serial no. 5611), p. 68.

stein clause, according to which any proceeds of the customs revenue and the tobacco tax over 130,000,000 marks should be paid back as "assignments" to the various States, a sort of compensation was created for the matricular contributions and the deprivation of certain rights of taxation in their own territories. Until 1892, this arrangement proved highly profitable to the various States, inasmuch as the assignments exceeded the matricular contributions by nearly 500,000,000 marks. But owing to the development of the imperial activities, military and naval, since that year, the situation was exactly reversed. The assignments fell far below the contributions. Because of the uncertainty of the prospective relations between the assignments and the contributions the financial systems of the individual States were disorganized and they not infrequently suffered deficits. In 1906, the first modern attempt at financial reform was made by the Stengel law, which made certain changes in the assignment system and perpetuated the system of matricular contribution.

So much for the fiscal relations between the imperial government and the constituent States. Those between the state, the province, the circle, and the commune can be studied best by taking Prussia as an example.

Besides Berlin which formed a particular unit by itself, Prussia was, before the signing of the Versailles Peace Treaty, divided into 13 provinces, 35 government districts or *Regierungs-bezirke*, 489 country circles (*Kreise*), 69 town circles, 1,263 towns communes (*Gemeinden*), 37,152 country communes, and 16,591 manorial estates (*Gutz-bezirke*). Below a circle and above several communes were created several official districts (*Amts-bezirke*) which were usually judicial and sometimes police districts only. The provinces, the circles, and the communes were areas for the purpose of both central administration and local self-

government, each of which was a corporate personality; the government districts were areas for central purposes only (police and justice) and were usually not incorporated.

For central administration, the province had a chief president, appointed by the King of Prussia who was concurrently the Emperor of the German Empire, and a provincial council of seven of which the chief president was the presiding officer, one professional member, appointed for an indefinite tenure by the Minister of the Interior at Berlin and the remaining five members were elected from among the citizens by the provincial committee. For local administration, there was a *Provinzial-landtag* (provincial assembly) whose members were elected by the diets of circles for six year, a provincial committee of from seven to fourteen members elected for six years by the *Provinzial-landtag* from among themselves, and a *Landeshauptmann*, a salaried executive chosen by the *Landtag* for six years and confirmed by the crown. The legislative functions were to supervise public charities, roads, and the industries of the province, to formulate and enact provincial laws, and to fix provincial taxes and apportion them among the circles. It might be dissolved at any time by the crown whose approval was necessary for all valid legislation. Provincial finances, especially, must be first submitted to the state authority before execution.¹

In the *Kreis* or circle, there was first the *Kreistag* as its legislature whose twenty-five members were elected for six years by three *Verbände* or colleges: cities, large rural taxpayers, and a complicated group of rural interests in which smaller taxpayers and delegates of the communal assemblies preponderated. The *Kreistag* chose, directly or indirectly, all the elective officials of the circle, the administrative district, and the province. It created local officers,

¹ Ogg and Beard, *op. cit.*, pp. 498-500.

regulated their functions, enacted local legislation, and finally voted taxes for its own uses as well as for provincial administration. The *Landrath* was nominated by the *Kreistag* and appointed by the crown. He superintended all administrative affairs, general and local, acted as the chief of police, and presided over the *Kreistag* and the *Kreisausschuss* or circle committee which was composed of six unofficial members elected by the *Kreistag* for six years who served as advisers to the *Landrath* and who sat together as an administrative court of the lowest grade.¹

Skipping over the official district or *Amts-bezirk* which was chiefly, like the French canton, a judicial district and which voted its own taxes for general and poor administration, we come to the lowest unit of Prussia local government, the commune or *Gemeinde*. There were two kinds of *Gemeinden*, the *Landgemeinde* or rural commune and the *Stadtgemeinde* or urban commune. Each rural commune had an elective chief magistrate (*Schulze*) and from two to six aldermen (*Schöffen*). It sometimes had a governing body (*Gemeindevertretung*) and sometimes a mass assembly (*Gemeindeversammlung*), when its size and population was so small as not to justify the election of a governing body. It was usually short in financial resources and poor in administrative ability so that actions were invariably taken with the approval and under the guidance of the authorities of the circle, chiefly, the *Landrath*. The urban commune had invariably a *Stadtrath* (administrative council or magisterial senate) consisting of a *Bürgermeister* (or mayor) and his several assistants (departmental heads) elected for 6, 9, or 12 years, or even for life. It had also a body of *Stadtverordnete* or municipal council or board of aldermen popularly chosen for from three to six years.²

¹ Ogg and Beard, *op. cit.*, pp. 501-2.

² Ogg and Beard, *op. cit.*, p. 502.

A general description of the Prussian system of local administration being given, its fiscal features must now be taken up. Prior to the tax reform of 1893, the local revenues consisted chiefly of the surtaxes (*Aufschläge*) on the state taxes which were the real estate taxes (land and building or house) and the personal property taxes (class tax or *Classensteuer*, classified income tax, and trading tax).¹ Partly due to the failure of a general grant-in-aid,² and partly due to the fact that the land (*Grundsteuer*), building (*Gebäudesteuer*), and trade (*Gewerbesteuer*) taxes failed to achieve justice—namely, taxation according to ability to pay which requires the distinction between the larger and smaller, the earned and unearned incomes—these taxes were handed over to local authorities in 1893. Since then the State could only impose a personal income tax supplemented by a general property tax arranged in stages in order to offset the loss incurred due to the surrender to the communes of the three important taxes as indicated. Thus we have here an example of the complete separation of sources of revenue between the State and the localities. Any new taxes imposed by the communal assemblies must be first approved by the superior authority and copies of new budgets must be sent to the same.

With respect to the provincial roads, however, the Prussian State had substantially subsidized the provincial authorities for the upkeep of the means of communication under their control. All the old State roads were, since the extension of popular government in 1875, handed over to the care of the provincial assemblies.³

As regards local indebtedness, there were two categories of central loans to the localities: first, the loans advanced

¹ O'Meara, *op. cit.*, p. 187.

² Grice, *op. cit.*, p. 317.

³ Grice, *op. cit.*, pp. 107-8.

by such credit institutions as the *Centralbodencredit* and the *Rheinische Hypothekenbank* with the sanction of the State and for the purpose of which the State granted special facilities; second, the State used for the purpose of local loans the funds accumulated under the old-age, sickness and invalidity insurance laws, and granted loans to the communes at an average rate of interest of from four to four and half per cent.¹

All corporate bodies in Prussia have had powers to raise loans granted to them; for the provinces, by the *Provinzial Ordnung* of 1875; for the circles, by the *Kreis-Ordnung* of 1872; and for the communes (urban), by various *Stadt-Ordnungen* of 1853 onwards. In every case the exercise of this power must meet with the approval of the superior supervisory authority: thus the resolutions of the rural communes must be submitted to and indorsed by the circle committee; the loan projects of the urban communes and circles must go to the district committee; the loan projects of the urban communes and circles must go to the district committee for approval; the borrowings of the City of Berlin must be sanctioned by the chief president of the province; and the provincial loans must be submitted to the Minister of the Interior for approval.²

Just a word about the audit of the local accounts. There was no central audit of local accounts, but the local audit was always filed with the central government.³ The burgomaster could revise the local treasury either monthly on fixed days or by surprise. The large urban communes had their own independent audit by approved accountants.⁴

¹ Grice, *op. cit.*, pp. 330-332; also see Cohn, *Science of Finance*, p. 737.

² Grice, *op. cit.*, pp. 340-341.

³ Frank J. Goodnow, *Municipal Government*, New York, 1910, p. 375. There was a court of accounts for the Empire and another for Prussia, but they dealt with no local accounts.

⁴ W. H. Dawson, *Municipal Life and Government in Germany*, London, 1914, pp. 344-5.

So much for the system of central and local finance of the old Germany in general and the old Prussia in particular. The new Germany has introduced many revolutionary changes, administrative, fiscal and otherwise, into her political organization. It is no longer an autocratic monarchy, but a socialistic republic. The new Prussia is nowadays clothed with no more political sovereignty and fiscal independence than the French department and the English county. The present fiscal system (among others) of Germany must be pronounced, therefore, as interesting as it is extraordinary.

As a result of the unfortunate World War—unfortunate to all concerned—the fiscal needs of the new-born republic have been tremendous. Succeeding the already heavily burdened monarchical regime, inheriting the enormous war expenditures and debts, bearing the gigantic task of demobilization with all its consequent obligations, taking over all the state railways and canals (*voies navigables*), assuming the charge of revictualling the war-worn population and assisting the unemployed, and lastly, promising to fulfil the stupendous financial obligations resulting from the Treaty of Versailles, all these important factors rendered the fiscal needs of the German Republic most urgent and superlatively gigantic.

Under such a crushing fiscal pressure, no central government would continue such old financial arrangements as the complete separation of the sources of revenue between the German Imperial Government and the individual States on the one hand and between the State and the localities on the other. It was no wonder that Herr Erzberger, once Minister of Finance in the new regime, should undertake a revolutionary fiscal reform and carry out the principles of financial sovereignty of the Empire, of centralization of fiscal administration, and of unification of financial re-

sources in the hands of the central government. Thus the new German revenue laws of 1919 and 1920 put the entire administration of the income (*Einkommensteuer*),¹ the inheritance (*Erbschaftssteuer*),² the land (*Landessteuer*),³ the land transfer (*Grunderwerbsteuer*),⁴ and the turnover (*Umsatzsteuer*)⁵ taxes in the hands of the central government and assign a portion of the revenues to the States.

In glancing over its budgets of 1920 and 1921, we find that all the important sources of revenue have been absorbed by the central government, leaving none to the individual States—a complete reversal of the old system. The central revenues in the old budgets are as follows:⁶

Name of tax	1921 (1000)	1920 (1000)
<i>Reichsnotopfer</i> ⁷	10,000,000 mk.	3,500,000 mk.
War fortune tax	2,000,000 "	6,594,000 "
Extraordinary war taxes, 1916, 1918, 1919	2,000,000 "	6,594,000 "
Inheritance tax	620,000 "	620,000 "
Real estate tax	25,000 "	100,000 "
Surplus value (<i>Zuwachssteuer</i>) tax ...	25,000 "	100,000 "
Income tax	12,000,000 "	12,000,000 "
Corporation tax ⁸	1,050,000 "	900,000 "
Capital income tax ⁹	1,400,000 "	1,300,000 "
Total direct taxes	27,095,000 "	25,014,000 "

¹ For German text of the law of May 29, 1920, see *Finanz-Archiv*, 1920, pp. 573.

² For German text of the law of Sept. 10, 1919, see *Finanz-Archiv*, 1920, pp. 315-31.

³ For German text of the law of Mar. 30, 1920, see *ibid.*, pp. 645-55.

⁴ For German text of the law of Sept. 12, 1919, see *ibid.*, pp. 289-97.

⁵ For German text of the law of Dec. 24, 1919, see *ibid.*, pp. 223-42.

⁶ J. Méneau, "Le budget de l'Allemagne," *Revue économique internationale*, IV, 421.

⁷ For German text of the law of Dec. 31, 1919, see *Finanz-Archiv*, 1920, pp. 559-72.

⁸ For German text of the law of Mar. 30, 1920, see *ibid.*, pp. 632-8.

⁹ For German text of the law of Mar. 29, 1920, see *ibid.*, pp. 639-44.

<i>Name of tax</i>	<i>1921</i>	<i>1920</i>
Turnover tax	5,400,000 mk.	3,650,000 mk.
Land-transfer tax	500,000 "	220,000 "
Stamp duties	1,308,000 "	830,000 "
Transportation taxes (<i>Verkehrssteuer</i>) ..	1,200,000 "	630,000 "
Taxes on the banks	1,530,018 "	1,450,000 "
Consumption tax	8,089,000 "	6,647,000 "
Customs duties, export taxes, and tariff increase	7,449,518 "	10,239,620 "
Total indirect taxes	25,476,518 "	17,019,620 "
Grand total	52,571,518 "	42,033,620 "

Thus all the most lucrative sources of revenue, in the form both of direct and of indirect taxes, have gone into the coffers of the central government. The way in which the central authority meets the state and local financial difficulties is worth noting. Since 1919 the state and communal fiscal distresses have been relieved by a system of central "transfers" (*Überweisungen*).¹ In 1920 the total amount of central transfers was 9,400 million marks or about seven and a half per cent of the total central expenditures; in 1921, it was originally set at 9,884 million marks or about nine per cent of total central expenditures, but later on it was found that an increase of 6,784 million marks had to be made, thus raising the percentage of transfers to central expenditures to a little more than fifteen. The German States are nowadays no more sovereign and independent than the French departments and the English counties; in fact, they are even worse off, so far as the financial attributions are concerned. The central transfers now constitute an integral part of the state budgets. The budget of Prussia for 1921 amounted to 16,700 million marks of which 5,800 million marks or 40.7% was from the central transfers. As a rule, the por-

¹ J. Méneau, *op. cit.*, pp. 408, 412-3.

tion of transfer amounts to two-thirds for the income tax, one-fifth for the inheritance tax, one-half (and in a few cases one-quarter) for the land transfer tax, and 15% for the turnover tax. In the last case 5% must go to the localities; in all the other cases, the apportionment to the localities is left to the State.¹

American National and Local Finance.

Having given three illustrations of a highly centralized and bureaucratic administrative and fiscal system, we may now present an example of the opposite extreme, the United States of America. The United States are a federated republic with the Federal Government exercising the enumerated powers and the constituent semi-independent and semi-sovereign States retaining the residual ones. The individual States elect their own officers, conduct their own affairs, and are beyond the reach of federal control and supervision. Like the Federal Government, each State has a bicameral legislature, a Senate and a House of Representatives. It has an independent judiciary and a popularly chosen executive department headed by a governor. Each of the forty-eight States is divided into a number of counties which are both administrative and local self-government areas. A county is further divided into cities, towns or townships, and the other minor civil divisions. Although the state authority in no case appoints any local officials, legislative, executive, or judicial, it has, nevertheless, constitutional and legislative control over them.

Regarding the financial resources of the different grades of government in America, it may be said that there is an almost complete separation of the sources of revenue between the federal and the state governments.

Formerly, the Federal Government had resort to indirect

¹ Seligman, *Essays in taxation*, 9th ed., 1921, p. 665.

- (11) Pension assessments.
- (12) Fees and charges (the former is for something done by the government for the individual, the latter is for the right to do something granted to the individual by the government).
- (13) Tolls.
- (14) Rates (applied to public service enterprises).
- (15) Highway privilege dues, both major and minor.
- (16) Other revenues: (a) state private enterprises.
 - (b) borrowings.
 - (c) fund accumulations.

The introduction of federal subventions and grants is an entirely new feature in American national and local finance. There happened, however, something like the German assignments in 1836, during Jackson's administration, when \$28,101,641 of a surplus of \$42,000,000 was distributed among the States. But, strictly speaking, this was by no means an assignment, for, according to the terms of the authorization by Congress, it was to be held by them until the Federal Government should call for it. Such deposits, if we may so call them, were carried on the Treasury's books as an asset for seventy years. In 1907 this was transferred as a charge against the States. The money has, however, never been repaid to the Federal Government.¹

The present system of federal subventions and grants can not be compared with the former aimless distribution or deposit of federal surplus revenue among the States. The present innovation is largely inspired by the English system of grants-in-aid, purporting to secure a "national minimum" and to remedy some of the defects of a particularistic system of political organization. According to

¹ *The New York Times*, February 24, 1922, p. 15, column 8.

Paul H. Douglas, it is a result of gradual realization of the need of centralization and the futility of chaos and confusion of state regulation of national problems. In spite of the opposition of the strict constructionists, the state-rights men, and the rich Eastern States, the Smith-Lever Bill for the purpose of giving "instruction and practical demonstrations in agriculture and home economics to persons not attending or resident in colleges in the several communities" was passed in 1914, the Good Roads Act for federal aid to Post-Roads was passed in 1916, the Smith-Hughes Act for the purpose of promoting vocational education was passed in 1917, and the Chamberlain-Kahn Act for purpose of aiding the campaign against venereal disease in the civil population was passed in 1918.¹ Thus, from 1905 to 1919, the total revenues and federal aids for state universities, agricultural and mechanical colleges, highways, experimental stations, agricultural extension, soldiers' and sailors' relief and home, etc. were as follows:—²

<i>Year</i>	<i>Total Revenue</i>	<i>Federal Subventions and Grants</i>	<i>Percentage</i>
1915	\$458,232,597	\$5,356,799	1.1
1916	466,946,748	10,252,542	2.2
1917	522,924,733	8,209,840	1.2
1918	588,305,651	8,848,569	1.5
1919	675,217,202	11,709,458	1.7

(The percentage of federal subventions and grants to state universities and agricultural and mechanical colleges was 51.5 in 1915, 74.8 in 1916, 53.9 in 1917, 49.4 in 1918, and 40.9 in 1919.)

Although the percentage of federal aid to the total revenue of the States is very small, it is, nevertheless, a signi-

¹ "The Development of a System of Federal Grants-in-aid," *Political Science Quarterly*, vol. xxxv, pp. 255, 258, 262, 524-532.

² *Financial Statistics of States*, 1915, pp. 36, 66, 72; 1916, pp. 37, 68, 74; 1917, pp. 38, 68, 74; 1918, pp. 37, 66, 72; 1919, pp. 36, 60, 66.

ficant development and departure from the practices of the so-called "good old days".

The decentralizationists allege that this entering wedge of federal interference with state affairs would inevitably lead the Federal Government to become bureaucratic, top-heavy and encumbered with red tape, that a centralized system is naturally unfit to such a large, populous and complex country as the United States of America; and that it would destroy the sovereignty of the States. The centralizationists claim, however, that such a system lessens the heavy burdens on poor states in process of improvement, for the means of a state are not necessarily always in proportion to its needs; that it insures a certain standard of national minimum, which is absolutely necessary for no state can now live in isolation while its population migrates so often and no individual citizen should be handicapped because of the accidents of birth; that it insures relatively more economic expenditures of federal funds and prevents their misuse, as the aids are to be without exception duplicated by the states assisted—thus eliminating the log-rolling and pork-barrel processes in local scrambles for rivers, harbors, and post-offices appropriations of the last thirty-five years; that it creates no centralized bureaucracy, granting local initiative, plasticity, and autonomy instead—thus avoiding deadening uniformity and allowing political experimentation; that it affords a clearing house for information and permits a centralized research, distributing the results of investigations and experiments; that it does not conflict with the Constitution, for initiative in requesting federal aid always comes from the States and their acquiescence in certain conditions attached is absolutely voluntary, and therefore it is not a violation of state sovereignty which should be considered as plastic and sharable rather than fixed and monistic; and that it serves to integrate the units affected within

the State and to strengthen state control in order to avoid too great variation on the part of the localities within that State.¹

The fiscal relations between the state and the local governments are comparatively more complex. There is a partial separation of the sources of revenue between the two. The general property tax, the income tax, and some corporation taxes are held to be common sources of revenue for both. The inheritance tax and some other corporation taxes are held to be exclusive sources of state revenue; while the real estate tax, the house or habitation tax, the dog license, etc., are exclusively sources of local revenue.

As regards revenue administration, the practice differs from state to state.

In some states taxes on the capital stock of banks and other corporations, and other revenues accruing in part or in their entirety to the benefit of counties, cities, and minor civil divisions are collected by the state, which retains its part if it participates in the revenue, and transmits to the civil divisions such amounts as are due them. In other states such revenues are collected and expended by the counties and cities themselves."² "In some states the general property tax, taxes on the capital stock of banks and other corporations, taxes on the liquor traffic, and other revenues accruing, in part or in their entirety, to the benefit of the state or county, or both, are collected by the city, which retains its part, if it participates in the revenue, and transmits to the other civil divisions such amounts as are due them. In other states these revenues are collected by the county governments, which pay over to the cities their proportions of the amounts collected."³

Quite recently, the tendency of the tax administrative re-

¹ Paul H. Douglas, *op. cit.*, pp. 255, 540-542.

² *Financial Statistics of States*, 1919, p. 12.

³ *Financial Statistics of Cities*, 1919, p. 23.

form in the States is without a single exception towards centralization in the hands of a state tax commission or some other organ of the same nature.

There are also state and county subventions and grants to the localities. According to the *Financial Statistics of Cities*, the subventions and grants from the state and county authorities to the cities of more than 30,000 inhabitants and the total revenue of such cities, from 1915 to 1919, were as follows: ¹

Year	No. of Cities	Total Revenue	State and County Subven. & Grants	Percentage
1915	204	\$940,385,311	\$36,141,199	3.8
1916	213	994,710,241	37,666,043	3.7
1917	219	1,065,537,142	39,806,668	3.7
1918	227	1,124,094,899	41,277,908	3.6
1919	227	1,224,112,714	44,802,680	3.6

(The percentage of state and county subventions and grants to education was 82 in 1915, 87 in 1916, 87.4 in 1917, 87.2 in 1918, and 85.4 in 1919).

These state and county subventions and grants do not mean that the state and county authorities can thereby control and impose conditions upon the city authorities in expending the amounts. Quite the contrary. According to Prof. Frank J. Goodnow, the American system of local government, as contrasted with the French and German system, is one of complete administrative decentralization made good by a system of legislative centralization to the most minute details. ²

The state constitution itself acts as a check upon the power of the local authorities, prescribing the limits of their authority, often laying down the maximum of their taxing power, and the forms of taxation which they are authorized to use. If they

¹ 1915, pp. 69, 140; 1916, pp. 71, 140, 172; 1917, pp. 72, 140, 172; 1918, pp. 64, 124, 156; 1919, pp. 63, 152, 118.

² *Comparative Administrative Law*, 1913, vol. i, book i, ch. vi.

exceed their legitimate powers, the usual method of judicial redress through the courts can be brought into play.¹

Usually the power of the localities to incur indebtedness is also limited by the constitution.

The audit of local accounts is generally in the hands of local authorities themselves and the state authorities have usually nothing to do with them.

English National and Local Finance.

Standing between the Franco-Prusso-Japanese administrative and fiscal system of local government and that of the United States of America is the English system.² While avoiding the defects of both, bureaucracy and anarchy, England retains the excellencies of both, efficiency and liberty or local self-government.

Let us first take up the English local organization.³ England is divided territorially into 64 administrative counties which were created and regulated by the local government legislations of 1888 and 1894; six of them coincide with the historical counties. While including all non-county boroughs and all urban districts, they exclude the 74 county boroughs situated within them. They vary extremely in size and population. Each administrative county has normally an elective council of 75 who look after the county affairs concerning finance, highways, sanitation, education, games, property, license-granting, and supervision of the minor rural authorities through committees. It is subdivided into (1) rural districts (672 in England and Wales) each of which has an elective council and a permanent staff chosen by the council which, besides the selection of officials,

¹ S. Leacock, *Elements of Political Science*, revised edition, p. 303.

² Sidney Webb, *Grants-in-aid*, revised edition, 1920, pp. 1-6.

³ Ogg and Beard, *op. cit.*, pp. 388-396.

enforces public health laws, cares for highways other than the "main roads", and levies district rates; (2) parishes (15,000 in England and Wales) each of which is composed of urban parishes which have no administrative importance and the rural parishes (each of which may or may not have a council), cares for the local means of communication, and levies poor rates; (3) urban districts which are on the way of becoming boroughs and which are each governed by committees which look after sanitation and highways; and (4) four hundred municipal boroughs chartered by the Local Government Board in the name of the crown and governed by a mayor (chosen by the council), several aldermen (chosen by the council for six years) and councillors who govern the borough by committees on all sorts of matters under the supervision of the Local Government Board which has the veto power on public health ordinances, etc. The debt limit of the municipal boroughs is set by the central authority and central permission is required for every new issue of bonds.

As already indicated, there are 74 county boroughs in England. These county boroughs are similar to municipal boroughs, but have withdrawn from the jurisdiction of the administrative counties in which they lie, and have themselves been endowed with the powers of such counties. The Local Government Act of 1888 provides that any borough is so withdrawn automatically when it attains a population of 50,000.

All these local governing bodies are more or less under the supervision of five central authorities: (1) the Home Office regulating factory inspection and police, (2) the Board of Trade regulating the commercial enterprises conducted by the localities such as electrical undertakings and tramways, (3) the Board of Education, (4) the Board of Agriculture directing veterinary matters, and finally (5)

the local Government Board (now the Ministry of Health) supervising charities, sanitation, finances, etc. However, the intervening link between the central departments and the minor local authorities is missing, inasmuch as there is extensive local responsible government and no administrative hierarchy such as exists in France, Prussia, and Japan. This gap is fortunately filled by an elaborate system of "grants-in-aid." According to Mr. Grice, the history of the relations of local and national finance in England may be conveniently divided into three periods. "The first begins with the passage of the Reform Bill in 1832 and ends with the proposals of Sir Robert Peel in 1846; the second includes the discussions and agitations which led to the increased grants in aid, provided for by Sir Stafford Northcote in his budget of 1874; the third is concerned with the revolutionary changes made by Mr. Goschen in 1888-1890, the relief grants under the Agricultural Rates Act of 1896, the modifications of the Local Taxation Accounts, introduced in the Finance Acts of 1907, 1908 and their results."¹

The "grants-in-aid" are given the localities usually for (1) the police, (2) elementary education, (3) industrial and reformatory schools, (4) public health (including provision for the sick and infirm, venereal diseases, tuberculosis, maternity and infancy), (5) the distress committee (unemployed workmen's relief, (6) lunacy, (7) highways, and (8) various contributions in lieu of poor rates.

In 1833-1834, the first grant-in-aid for national education was made. From that time on, this ingenious system of reconciliation between liberty or local autonomy on the one hand and efficiency or central control and supervision on the other gradually gained ground. In order to show how fast it grew, let us adduce some figures. According to

¹ Grice, *op. cit.*, p. 11.

Mr. Sidney Webb, it grew from decade to decade since 1830 as follows: ¹

1830	about	100,000 £
1840		500,000 "
1850		750,000 "
1860	over	1,000,000 "
1870	about	2,000,000 "
1880		5,000,000 "
1890		12,000,000 "
1900		16,000,000 "
1911-1912		30,000,000 "
1920-1921		65,000,000 "

In his book "Grants-in-aid" (p. 26) Mr. Webb advances four grounds for a system of general grants-in-aid:

- (1) to mitigate any inequalities of burden between different localities,
- (2) to secure effective authority for the necessary supervision and control of the national government,
- (3) to encourage the kind of expenditures most desirable in the interest of the community as a whole, and
- (4) to make it possible to attain to anything like a universal enforcement of the "national minimum" that Parliament has prescribed.

There is practically no separation of revenue between the national and the local governments in England. According to the financial arrangement of 1888, the general scheme of central subventions out of the Local Taxation and Exchequer Distribution Accounts has been as follows: ²

- (1) The Local Taxation Account absorbs (1) the local taxation licenses such as duties on dogs, killing game, guns, carriages including locomotives on

¹ *Grants-in-aid*, p. 8.

² Grice, *op. cit.*, p. 97.

highways, armorial bearings, and male servants, (2) part of the Estate Duty, and (3) eighty per cent. of the surtax on beer and spirits. Out of this account, the central government grants (1) diseases of animals grants, (2) agricultural rates, (3) metropolitan police grants, (4) police pensions, and (5) costs of revising barristers. In compliance with the modifications effected in the Finance Acts of 1907 and 1908, the power of levying local taxation licenses has since then been transferred to county councils which are required to make returns to the Local Government Board as to the amounts collected.

- (2) The Exchequer Distribution Account of counties and county boroughs caters to the needs of (1) technical education, (2) extra metropolitan police, (3) sanitary officers, (4) union officers, (5) pauper lunatics, (6) poor law teachers, (7) public vaccination, (8) registration of births and deaths, (9) school fees and pauper children, and (10) other services. By the provisions of the Finance Acts of 1907 and 1908, all grants are thenceforth to be charged on and paid out of the Consolidated Fund.¹
- (3) Besides these two accounts, there are also general grants in aid of rates.

With reference to the audit of local accounts, the Local Government Board examines yearly or half-yearly the accounts of all local bodies except municipal boroughs. It also has the power to disallow illegal or improper expenditure or to surcharge it upon the individual members of the offending authority.² The accounts of a municipal borough are audited by three members, one of whom is appointed by

¹ Grice, *op. cit.*, p. 98.

² Percy Ashley, "The financial control of local authorities," *Economic Journal*, 1902, p. 184.

the mayor from among the members of the borough council and the other two are elected burgesses. Such local auditors are usually incompetent and wanting in interest.

The other central controls of local finance are (1) the limitation of local tax rates, and (2) the requirement of central sanction for local loans which, above all, have also to undergo the process of referendum. Thus the local authorities may acquire borrowing powers either (1) by clauses in general acts such as the Public Health Acts, the Education Acts, and the Municipal Corporation Act, or (2) by special local act. Each general statute usually specifies a maximum period for repayment, the discretion within these limits resting with the government department especially concerned with the object for which the loan is desired. The maximum periods vary from ten to sixty years. The Local Government Board, which does most of the controlling (since 1902 also for loans under the Education Acts), usually acts only after local inquiry by one of its inspectors into the probable durability and continuing utility of each object for which a loan is required. By a process of equating the periods of utility, a period for the whole loan is arrived at which usually falls somewhat below the maximum allowed. This process of equation is not required where either the sum in each group of items in the estimates is large or the local authority prefers separate loans. It also takes into account the probable future condition of the local body with regard to debt.¹

Conclusion.

We might continue with the systems of national and local finance of other nations or countries such as Belgium, Italy, Switzerland, Canada,² etc. But space does not allow.

¹ Grice, *op. cit.*, pp. 346-347.

² The fiscal relation between the Dominion and the provincial gov-

us to do so. It is assumed that the five systems of national and local finance here dealt with practically cover all the different important features concerning the fiscal relations between the central or national and local governments.

The characteristics of the first three systems (French, German, and Japanese) are (1) centralization of administration and control, (2) bureaucracy and hierarchy, (3), loss of local autonomy, and (4) gain in efficiency. The characteristics of the American system are (1) fullest development of local self-government, and (2) local anarchy resulting in local misgovernment, chaos, confusion, and extravagance and waste. The characteristics of the English system are (1) preservation of local self-government, and (2) highly developed central control, supervision, and direction of local affairs, especially finance.

ernments in Canada is peculiar, due to the fact that the former is constitutionally or rather statutorily required to subsidize the latter. This kind of subsidy system is very objectionable from the standpoint of correct budget procedure:

1. "In the first place, the Dominion subsidies violate the sound constitutional and economic principle that the best way to check extravagance in public and private expenditures is to oblige these political units which spend funds of any description to furnish the proceeds with which to defray such outlays.
2. "The granting of large Dominion subsidies has also delayed the introduction of direct taxation in the Provinces, which would prove the best curb on extravagance as it would result in a more careful scrutiny of government expenditure.
3. "Furthermore, the knowledge that the Dominion will help them out in case of necessity has caused the Provinces to be improvident in many instances and to postpone facing the responsibility which they were incurring for the future.
4. "Finally, the Canadian subsidy system has weakened the idea of self-help among the people and has retarded the growth of local self-government." Provinces having a large subsidy from the federal government, have unnecessarily taken over the improvements which ought to be initiated by the different localities concerned and to be financed by local means.

(H. J. Villard and W. W. Willoughby, *The Canadian Budgetary System*, New York, 1918, pp. 280-281.)

To generalize further these five systems, we may add that the Franco-Germano-Japanese system of local administration and finance gains efficiency at the expense of local liberty; that the American system of local administration and finance gains local autonomy at the expenses of efficiency; and that the English system of local administration and finance secures every advantage of the Continental and American systems without incurring their disadvantages.

What can China learn from these five systems? The answer is obvious. She can learn efficiency from France, Germany, and Japan. She can learn liberty from America. And she can learn the compromise of reconciliation between efficiency and liberty from England.

As regards the separation of revenue, we understand that the practice differs from country to country. Thus, in France, Japan, and England, there is practically no separation of revenue at all. In Germany, there was complete separation of revenue both between the Imperial Government and the State Governments, and between the State and the local governments (especially in Prussia) before 1919, but a completely unified system has since then taken its place. In America, there was until recently almost complete separation of revenue between the Federal and the State Governments on the one hand, and partial separation of revenue between the State and local governments on the other.

Again, what can China learn from them with regard to this important question that has been engaging the attention of her political and fiscal reformers ever since the Imperial Edict for a nine-years' preparation for the adoption of a constitutional form of government in 1907?

Being such a vast and unwieldy country, China can, in this respect learn very little from France, Japan, England or the present-day Germany. The evils of communism of

finance are well known. She can learn a little more from the old German system of complete separation of revenue both between the Imperial and the State Governments and between the State and the localities. The latter procedure probably goes too far. But China can learn most from the American system of an almost complete separation of revenue between the Federal and State Governments on the one hand and a partial separation of revenue between the State and local governments on the other.

It is the purpose of the next two chapters to develop these two suggestions (reconciliation between liberty and efficiency and a system of both complete and partial separation of revenue between the different grades of governments) and to formulate a constructive politico-fiscal program for China.

CHAPTER V

SOME FUNDAMENTAL RECOMMENDATIONS FOR THE POLITICAL READJUSTMENT BETWEEN THE CENTRAL, THE PROVINCIAL AND THE LOCAL GOVERNMENTS

As has already been said, government finance is closely related to governmental structure and organization. There can be no efficient government finance without efficient government structure and organization. In order to readjust the fiscal relations between the central, the provincial, and the local governments in China, some fundamental recommendations concerning the reorganization of the political system of the entire nation should be first noted and effected.

True it is that China is still groping in the dark and cares about no principle but expediency. But we must not be too immediately practical and realistic. Any change or reform, however beneficent it may prove to be in later years, is first considered, if not condemned, as utterly visionary and impracticable. However hopeless the present political situation in China may appear to be, there is absolutely no reason why we should not set forth some fundamental principles of government the attainment of which should be the goal of all our practical reforms.

With this long-range view in mind, the author of this monograph ventures to suggest the following recommendations for the political readjustment between the central, the provincial, and the local governments in China.

In the first place, provincial and local self-government

should be granted in the National Constitution, which, to our regret, has never yet been framed and adopted by the people, because of internal troubles. This naturally brings us to a discussion, at this point, of the advisability and the possibility of the establishment of a federal republic in China. The decentralizationists argue that it is advisable for China to adopt a multiple or federal government because

(1) it is so far the only kind of flexible and hence durable government permanently applicable to a vast and extended country such as the United States of America or China,¹

(2) it is more in harmony with the ideal of modern democracy than a unitary polity—as a means of realizing the maximum of liberty compatible with order,² and

(3) it avoids the tyranny of the majority which Rousseau overlooked and upon which Tocqueville laid stress³ and affords better channels for the operation of an active consent on the part of the people than any other form of government.⁴

On the other hand, the centralizationists contended that it is inadvisable for China to adopt a federal form of government, because

(1) it lacks the strength of a unitary government which “is strong since all authority is concentrated in a single organization and can be fully brought to bear at any time,”⁵

¹ John Fiske, *American Political Ideas*, 1911, p. 84.

² *Ibid.*, pp. 125-126; also Henry Sidgwick, *Development of European Polity*, 1903, p. 437.

³ Sidgwick, *op. cit.*, p. 438.

⁴ Harold J. Laski, *The Foundations of Sovereignty and Other Essays*, 1921, p. viii.

⁵ W. F. Willoughby, *An Introduction to the Study of the Government of Modern States*, 1919, p. 212.

(2) it lacks the simplicity of a unitary government which "is simple, since the problem is not presented of rigidly defining the respective jurisdiction of the central government and that of its political subdivisions,"¹ and

(3) it lacks the flexibility in operation of a unitary government which can, by mere legislative act, at any time alter the distribution of powers and duties between the central government and its political subdivisions.²

Carefully balancing the relative weight of all the arguments on both sides in the controversy, the author is inclined to cast his lot with the affirmative, being mindful of the fact that China, like America, is virtually a small continent by itself.³

As regards the possibility of a federal form of government in China, we can do no better here than to refer to the last part of Chapter III, where the recent movement in China for a federation of self-governing provinces is fully treated.

But whether China should and can adopt a federal form of government or not is immaterial for our purpose here. Substance is far more important than mere form. What we are really after is provincial and local self-government. The writer's first recommendation for the political readjustment between the central, the provincial, and the local governments in China is, as has been already stated above, the granting of provincial and local self-government in the National Constitution which is yet to be drafted and adopted, no matter whether the Chinese people have already possessed

¹W. F. Willoughby, *op. cit.*, p. 212.

²W. F. Willoughby, *op. cit.*, p. 212.

³"The unified governance of America is a physical and economic impossibility; and the roots of the federal tradition were already laid there." (Laski, *op. cit.*, p. 53.)

self-governing capacity or not.¹ This recommendation is based on five reasons:

First, provincial and local self-government is desirable and should be the goal of the political life of any nation or people, because

(1) "It creates among the citizens a sense of their common interest in common affairs, and of their individual as well as common duty to take care that those affairs are efficiently and honestly administered Whoever learns to be public-spirited, active and upright in the affairs of the village (or town or city) has learnt the first lesson of the duty incumbent on a citizen of a great country."²

(2) ". . . . Local institutions train men not only to work for others but also to work effectively with others. They develop common sense, reasonableness, judgment, sociability. Those who have to bring their minds together learn the need for concession and compromise. A man has the opportunity of showing what is in him, and commending himself to his fellow-citizens. Two useful habits are formed, that of recognizing the worth of knowledge and tact in public affairs and that of judging men by performance rather than by professions and promises."³

(3) It eliminates the spoils system and political patron-

¹ This assertion may seem to be a little too bold. But it is really not so. To be sure "local self-government ought not to be given till the people have learnt how to use it. Yet how will they learn to use it except by trying? This is the old problem which has always divided thinkers as well as politicians. Swimming can be learnt only by going into the water, but if you go in before you can swim, you may be drowned. Those who know the history of Switzerland, America, and England do not deny the risk, but think it well worth taking." (James Bryce, *Modern Democracies*, vol. i, p. 285.)

² Bryce, *op. cit.*, pp. 131-2.

³ Bryce, *op. cit.*, vol. i, p. 132.

age on the part of the central government at least in the selection of local officials.¹

(4) It eliminates unreasonable expectations from and complaints against the government, since the mass of the community has a "general diffused knowledge of the real nature of governmental business and the conditions and limitations under which it is carried on" ²

(5) It guards against the deadening uniformity of a central bureaucracy which tends to become attached to its settled habits, to dislike novelties and experiments and hence to retard progress, and to assume towards the private citizens a slightly supercilious air and hence to cause the flagging of popular interest in local government and the deepening of the gap of misunderstanding between the governing and the governed.³

(6) It contributes "to the development of local centres of thought and action. Many a country has had reason to dread the excessive power of its capital city. There ought to be many cities, each cherishing its own traditions, each representing or embodying a certain type of opinion. . . ." such as Lyons, Marseilles, and Bordeaux in France and Munich, Frankfurt, Hamburg, Leipzig, Dresden, and Cologne in Germany.⁴

The advocacy of provincial and local self-government does not mean a downright laissez-faire policy, but the quintessence of liberalism. In view of the fact that no system is perfect in this imperfect world and hence a system of provincial and local autonomy also has its drawbacks and

¹ Bryce, *op. cit.*, vol. ii, p. 436; also Sidgwick, *The Elements of Politics*, 1891, p. 488.

² Sidgwick, *The Elements of Politics*.

³ Bryce, *op. cit.*, vol. ii, p. 437; also Laski, *op. cit.*, p. vii.

⁴ Bryce, *op. cit.*, vol. ii, p. 437.

defects,¹ central control is perhaps necessary in one form or another. What is objectionable is not exactly the central control itself as a theory, but rather the high-handed process and procedure in and by which it is often effected and maintained in not a few highly civilized and organized countries today. Central control can be secured through other channels than a centralized, bureaucratic and hierarchic administration.²

Second, provincial and local self-government is the only alternative for China's political reorganization. Like the United States of America and the Dominion of Canada, China is too vast a country to render possible any efficient working of a centralized and bureaucratic system of administration.

It is impossible to expect all government departments in Peking, however efficient, to initiate, execute, and supervise numerous social, industrial, and economic reforms in all the provinces, as they are hampered by the distance from the scene and the difficulties in getting an inside knowledge of local conditions. In a territory so extensive in area³ and so rich in natural resources

¹All the arguments employed against federalism may be also used against provincial and local autonomy. In addition we should also beware of the possibility of local disaffection finding its vent in a ready-made machinery for organizing resistance against the central government. But this fear can be easily dispelled if we should assign a unified control over all the military affairs of the country to the central government.

²As regards the other channels of central control, one of which will be fully presented in the next chapter where the English system of grants-in-aid is endorsed heartily by the author.

³"It will be seen that the least extensive province, Chekiang, is larger than Portugal (excluding her colonies), the area of which is 35,000 square miles; and that the most extensive province, Szechuan, exceeds the French Republic or the German Empire (colonies excluded) by 10,000 square miles. The least populous province, Kansu, has a population almost as big as that of the Kingdom of Sweden or of Greece; and the most populous province, Chihli, has one as big as the populations of the Austro-Hungarian Empire and the Chilian Republic combined." (S. G. Cheng, *Modern China, a Political Study*, 1919, p. 136.)

as China, it is indeed necessary for the Central Government to devolve some of its functions on the provincial authorities, if it is to develop the country on a comprehensive scale and by Western methods.¹

Aside from its inefficiency, a centralized and bureaucratic system of administration in such a large country as China tends to be inimical to democracy. Centralization and democracy can go together in France because France is small, only as large as the two or three smallest provinces or the one largest province in China. Bureaucracy was efficient in Germany, for the same reason; and yet we should not overlook the fact that the German municipalities have long enjoyed a much wider scope of administrative freedom than in any of the democratic nations in the world. The British Isles are smaller than the province of Szechuan of China, yet their counties, county boroughs, districts and parishes enjoy local self-government to a great extent. The fact that only the small nations (in area) of the world have been materially influenced by the Napoleonic system of local administration is a further evidence for its unsuitability in a large and vast country.² The old oriental despotism is nowadays not only theoretically unsound, but also practically unworkable. It had its day in the past and now it must yield to a more enlightened and democratic system of administration.

If we should further examine the actual conditions in France and England, we would get a still clearer view of the direction in which the wind is blowing. There has been

¹ S. G. Cheng, *op. cit.*, p. 125.

² "Its influence (the influence of the Napoleonic system of local administration) upon the local government policies of other countries—of Italy, Belgium, Spain, Greece, Japan, and the South American republics, for instance, has also been marked." (W. B. Munro, *The Government of European Cities*, p. 7.)

a strong movement for regionalism both in France and in England. The fact that France, the home of centralization, should also now turn to decentralization is full of significance. According to Lord Bryce, the French decentralizationists have proposed to regroup the 86 departments into 17 regions, each containing from 3 to 10 departments, on geographical lines in accordance with their respective economic interests and historical traditions—and then to confer upon each such area a measure of local autonomy sufficient to relieve the Central Government of many functions.¹ Probably no Frenchman voices the favorable opinion for devolution in France better than M. Briand who spoke in the Chamber of Deputies on March 21, 1919, as follows: ²

la guerre nous a montré combien est dangereuse, redoutable, cette espèce de congestion du pays dans le pouvoir central. Demain ne comprenez-vous donc pas que si le pays n'est pas doté d'une nouvelle organisation administrative, s'il n'est pas possible de décentraliser sa finance, s'il n'est pas possible à tous les citoyens de mettre leurs initiatives et leurs intelligences en valeur, si on ne leur en procure pas les moyens, alors l'avenir sera sombre malgré la victoire?

Though already much more democratic and decentralized than France, England has also been flooded with literature advocating regionalism and devolution. Thus Mr. G. D. H. Cole, the well-known guild socialist, while advocating regional democracy and devolution and condemning centralization and the bureaucratic machine in Whitehall, says that “. . . a transference of any considerable part of the legislative and administrative responsibilities of the State to smaller localized bodies within its area would have very

¹ *Modern Democracies*, vol. i, p. 285.

great advantages in affording more time and opportunity for the consideration of important questions, and also in simplifying the work of central government.”¹ Mr. F. J. C. Hearnshaw, in his book ‘*Democracy at the Crossways*,’ advocates the establishment of four National Councils or Sub-Parliaments in England, Scotland, Wales, and Ireland in order to relieve the House of Commons from the overwork² and prophecies that “the great states of the future will undoubtedly be federated states, in which many nations, peoples, and tongues combine with cordial loyalty for common ends, but in which they retain within the federation the cherished traditions of their respective historic personalities.”³ Mr. Sidney Webb, the well-known Fabian socialist, in his book *A Constitution for the Socialist Commonwealth of Great Britain*, is of the opinion that devolution is an alternative scheme of reform to relieve the House of Commons and the Cabinet from congestion of business if his scheme of a Dual-Parliament (Political Parliament and Social Parliament) should not be adopted.⁴ He would also encourage local emulation and rivalry in efficiency among the administrators of all local services.⁵

¹*The Future of Local Government*, 1921, p. 20.

²P. 453.

³P. 454.

⁴Pp. 131-4.

⁵“This emulation among different Municipal Authorities, whether with regard to particular services or to the whole complex of services that they administer, will not mitigate against—on the contrary, it will help forward—the development of federal institutions among the various Local Governing Bodies. It is one of the outstanding advantages of local, as compared with national, administration that it offers an easy opportunity for the development of a freer and more elastic centralization than is possible in an industry or service nationally administered from a central office” (*op. cit.*, pp. 240-1).

Third, the Chinese people have enjoyed local self-government in their villages from time immemorial and now they should enjoy a much wider scope of local autonomy under the republican form of government so that they will have ample room for the development of initiative, energy, and intelligence. Benevolent despotism can no longer be tolerated by a self-respecting people. "Paternalism, however wide be the basis of consent upon which it is erected, is the subtlest form of poison to the democratic state,"¹

Fourth, there has been too much national politics in Peking which has been absorbing a disproportionate share of the brains of the country at the expense of the provinces and districts, and, therefore, it is highly desirable to make the local and the provincial politics nearly, if not equally, as attractive as the national politics. The decentralization of the nation's intellect would most likely lessen the possibility of constant nation-wide political upheavals which have been chiefly due to the discontent and jealousy of the many ambitious political leaders of the country, all found in Peking for lack of attractiveness of provincial and local politics. This is no less true of a large number of the minor officials. If the provincial authorities are made exclusively responsible for the administration of certain functions,

there will be opened in every province a new field of employment for a large number of Civil Service Candidates who would otherwise go through the difficult process of making their way to Peking in order to obtain their "loaves and fishes" by favoritism or other undesirable means. They will then have the opportunity of training themselves for administrative work in their own province and form the reserve from which the Central Government can draw its supply of experienced offi-

¹Laski, *op. cit.*, p. 43.

cials.¹ The same thing is true with the legislative branch of the Central Government. . . . Parliament in China is not representative, as both voters and representatives have not been trained to understand what is required of them. A separate legislature in the province will be a useful institution to train the prospective members of the Central Parliament.²

Thus we might say that provincial and local self-government affords a training school of politics to those capable, energetic, and ambitious citizens who otherwise would have little opportunity to show their worth in their own provinces or localities or would go to Peking to be contaminated by the corruption of the capital and to create troubles due to a too severe struggle of existence (or shall we say for office?) in the crowded metropolis.

Fifth and last, in conformity with the principle of "division of labor also, the advisability of provincial and local autonomy is placed beyond any shadow of doubt. The central government has already more than enough to do with the more important national functions. To unreasonably over-burden the central government is certainly against the valuable lesson of human experience. "Nothing is more clear . . . than the existence of a law of diminishing administrative returns."³ The smooth circulation of the blood of the administrative machinery can best be secured through a well-proportioned distribution of functions between the central, the provincial, and the local governments. Experience shows that centralization (or rather over-centralization) often "results in apoplexy at the centre and anaemia at the extremities."⁴ The irresistible tendency

¹ S. G. Cheng, *op. cit.*, p. 128.

² S. G. Cheng, *op. cit.*, pp. 128-9.

³ Laski, *op. cit.*, p. vii.

⁴ Laski, *op. cit.*

of centralization "to apply uniform and equal solutions to things neither uniform nor equal"¹ is, again, utterly artificial and unscientific, to say the least.

The first and most important political recommendation being disposed of, we now come to the second recommendation, namely, that the unit or division of the local governing bodies should be three-fold only: first, the province; second, the district; and third, the cities of municipalities, the towns or townships, or the villages. The present retention of *Tao* or circuit as a connecting link between the districts and the province is justified on no ground except that of expediency; namely, to provide a means of communication within the provinces and also an outlet for job-seekers or position-hunters. The central government may redivide a province into as many units or districts as may be necessary for purposes of administering justice and performing other national functions. For purposes of special activities of a local or provincial nature (or both) such as election, education, sanitation, highways, parks, conservancy, industrial development, etc., the districts, cities, towns, and villages may also be regrouped and redivided. This recommendation is in perfect accord with the newly framed and adopted Provincial Constitutions of Chekiang and Hunan.

In the third place, the provinces should have full power to formulate and adopt their own constitutions, subject, of course, to the restrictions of the National Constitution.² Like the British North America Act, the National Constitution of China may do well to distribute the legislative

¹Laski, *ibid.*

²The two Provincial Constitutions of Chekiang and Hunan were framed without consulting the National Constitution which is yet unborn. But in no case have they encroached upon the functions and powers that are apparently national in character and scope, such as military and foreign affairs, etc.

powers between the National and the Provincial Assemblies.¹ Speaking broadly, such functions and powers as the conduct of foreign relations, the military defense of the nation, the administration of justice, both civil and criminal, the control of international and interprovincial commerce, communication and transportation, and the other functions and powers that are by nature national in character and scope should belong to Parliament; and such functions and powers as are by nature provincial and local in character and scope should belong to the Provincial Assembly. The provincial legislature should give charters to incorporate the populous cities or municipalities. The districts, which have long been the smallest units of local administration in China, should be confirmed by a general law of local government as the largest units of local self-government within the province and as the provincial administrative counties as well. Towns and villages need not be chartered, but should be confirmed or created by a general law of local government enacted by the legislature and promulgated by the governor of each respective province.

In the fourth place, the central government should not interfere with the administration of districts, towns, and villages; these local governing bodies should be subject to

¹ For the full text of the act, see J. G. Bourinot, *How Canada is Governed*, appendix, pp. 289-326. According to Prof. W. F. Willoughby, there are three methods of distributing powers between the central and state governments. (1) By enumerating in detail the powers which are granted to the central and the state governments respectively. This method is never used by any nation. (2) By specifying the powers granted to the central government and declaring that all the remaining powers of government shall belong to the state governments. This method is used by the United States of America, Switzerland, and Australia and was until recently used by Germany. And (3) by specifying the powers granted to the state governments and declaring that all the remaining powers of government shall belong to the central government. This method is used by Canada and is the most scientific (*op. cit.*, pp. 209-212).

the control of a Local-Government Board in the provincial capital only,¹ for they derive their legal existence from the constitution and the general laws of local government of the province concerned. The central government should establish a Provincial-Government Board² which should have the power to advise the provincial Local-Government Boards.

In the fifth and last place, all the important political officers of the provincial, the district, the city, the town, and the village governments should be elected by the respective electorates.³ This should be so because "the accepted rationale of responsible government rests on the principle that the interests of any group of governed persons are

¹The Local-Government Board should not be confused with its namesake in England. One should be an agency of provincial control, the other is that of central control. The composition of this board should include all the provincial departmental heads who in one way or another are connected with local administration of a complex of services or functions, including the provincial treasurer who should form a connecting link between this Board and the Board of Local Finance—thus securing cooperation between the two agencies of provincial control of local administration. (*Infra*, p. 168.) The powers of this board should be more advisory than administrative so that the spirit of local autonomy may not suffer.

²The Provincial-Government Board should be an agency of central control of all provincial activities save the financial which should be circumscribed by another board to be known as the Board of Provincial Finance. (*Infra*, p. 167.) The composition of this board should include all the cabinet members who in one way or another are connected with provincial administration of various activities, including the Minister of Finance who should form a connecting link between this board and the Board of Provincial Finance—thus securing the cooperation between the two agencies of central control of provincial administration. The powers of this board, like those of the provincial Local-Government Board, should be more advisory than administrative in order to foster the spirit of provincial self-government.

³The executive officers may, however, be elected or appointed by the legislature as is the case in Canada, Australia, New Zealand, Great Britain and Germany. (For a detailed treatment, see James Bryce, *Modern Democracies*, vol. ii, p. 440.)

likely to be best looked after by governing persons whom they have the power from time to time to dismiss, directly or indirectly."¹ The short ballot and the *scrutin de liste* or the general ticket should be preferred.² The minor administrative officials should be recruited in accordance with a strict civil service law enacted by the respective legislature concerned.

Theory and Practice.

To recommend what ought to be is one thing, to realize what is recommended as desirable is quite another. It is not infrequently the case that theory is at loggerheads with practice. Psychologists tell us that habits are difficult to change and sociologists warn us that sweeping changes of the established social and political institutions are often accompanied by unexpected and contrary results. Desirable though federalism may be, we are confronted with three difficulties in its application to China.³ First, the lacks experienced administrators and legislators. According to Lord Bryce, the success of federalism in America was due chiefly to the previous training of the people in the state government during the colonial days. China has had no such previous preparation. Second, she lacks a strong Supreme Court to settle conflicts and disputes between the central and provincial governments. An independent judiciary also accounts for much of the American success in federalism. And third, China has backward provinces which lag behind the South-Eastern provinces in almost every phase of development.

¹Sidgwick, *Elements of Politics*, p. 486.

²The merit of "general ticket" consists in the fact that it tends to give less scope for intrigue and to secure better men. (Bryce, *op. cit.*, vol. ii, p. 441.)

³S. G. Cheng, *op. cit.*, p. 134.

Despite her unfitness for federalism, the arguments for its adoption in China purely on grounds of expediency and circumstances are not wanting. First, if federation usually follows the period of independent states,¹ then this truism applies exactly to China. Formerly, the provinces in China, though owing

a common allegiance to the Chinese Emperor, nevertheless . . . had long enjoyed such autonomous powers as to give to them the status of almost independent commonwealths. They had their own armies and, even when their country was attacked by a foreign power, took only such part in the contest as their individual interest directed.²

Second, as Thiers once said that a republic divides the people (French) the least, we might also aptly say, in the case of China, that federalism is the lesser of the two evils. The present-day nominal centralization has threatened to ruin her and has deprived her of a most valuable and much-desired chance of pulling herself together. True it is that federation, if not carefully operated, may cause violence and incompetence in administration: but every system of government may bring forth undesirable results and

machinery can sometimes solve a deadlock from which the antagonists are striving to escape without losing credit. It can certainly, in time, alter environment, and diminish the influence of traditions so that the people who adopt it will gradually become fit for new institutions and for new principles and methods of government.³

And third, considering the immense size of China, the differences in dialect and custom between the provinces, and

¹ Willoughby, *op. cit.*, p. 202.

² Willoughby, *op. cit.*, p. 204.

³ S. G. Cheng, *op. cit.*, p. 133.

the strength of provincial feeling, one is likely to be correct in thinking that what is wanted is a sort of federal system, most of the functions of government being assigned to provincial assemblies and officials, with only those reserved to the Central Parliament which must be uniform in their action for the whole nation, and which provide for its common interests as regards commerce and national defense.¹

As regards local self-government, China also suffers from lack of previous training and from lack of education. If she continues to leave ninety or more per cent of her people illiterate, the prospect of local autonomy is very dim indeed. While the people are being educated, local self-government should, however, be, within the reasonable margin of safety, fostered by the provincial authorities. The fact that "so late as 1913 there was no larger rural area (other than the village) possessing self-government and the cities were ruled by officials appointed by the Governor of the province, who is himself appointed by Peking"² further renders it difficult to follow the recommendations and to achieve results. Although "what one may call the raw material for popular government is not wanting, . . . there have existed few institutions that can be turned to account for the purpose."³

¹ Bryce, *op. cit.*, vol. ii, pp. 510-11.

² Bryce, *op. cit.*, vol. ii, pp. 510-11.

³ When considering the raw material for popular government in the Chinese people, Lord Bryce said in part as follows:

"But in some ways China furnishes no unpromising field for an experiment in popular government. Its people have five sterling qualities—industry, independence of character, a respect for settled order, a sense of what moral duty means, a deference to intellectual eminence. They have the power of working together; they can restrain their feelings and impulses; they are highly intelligent and amenable to reason. Weak as they have seemed to be in international affairs, they have plenty of national pride and a sort of patriotism, though it does not flow into military channels" (*op. cit.*, vol. ii, p. 510).

CHAPTER VI

SOME FUNDAMENTAL RECOMMENDATIONS FOR THE FISCAL READJUSTMENT BETWEEN THE CENTRAL, THE PROVINCIAL, AND THE LOCAL GOVERNMENTS

THE goal and the machinery of a liberal and democratic provincial and local self-government being set, the proper fiscal relations and readjustments between the central, the provincial, and the local governments in China can now be discussed more clearly.

As a corollary to the principle of provincial (or federal) and local self-government is the automatic grant of financial autonomy to the provinces and the other local governing bodies. This financial autonomy should, however, never be construed as absolute financial independence of the provinces toward the central government or of the local authorities toward their respective provincial authorities. Each governing body should have a revenue, treasury and expenditure system of its own. There should be a separation of revenues between the central and the provincial governments on the one hand and between the provincial and local governments on the other: the former separation should be complete, the latter, partial. Each government should know what revenues are available and what are unavailable for its own expenditures.

As far as is feasible, its revenues should be obtained by taxes and dues collected within its own territory, and its payments

should be made for matters affecting the interests of such (self-governing) territory. If provision is made for payments from local to provincial treasuries . . . or *vice versâ*, the provision should be of a definite character and conform to some fixed principle. In no case should one local district be compelled to contribute to the support of another local district or one province to the support of another province.¹

When each self-governing body "feels that it has a revenue wholly its own, that its obligations to other bodies are definitely fixed, and that, subject to these obligations, its income will be applied to its own use,"² it will naturally have such a feeling of independence and responsibility as will make the effective working out of a proper system of genuine self-government possible.

*Complete Separation of Sources of Revenue between the
Central and the Provincial Governments*

As regards the proper separation of the sources of revenue between the central government on the one hand and the provincial and local governments on the other, it is recommended here that all the so-called indirect taxes, national in scope and character, such as the customs duties, the salt gabelle, the wine and tobacco excise, the stamp tax, etc. should be national. This is the general practice throughout the whole civilized world and is based on sound economic principle, for the basis of taxation determines the question as to whether a given source of revenue is naturally more suitable for utilization or administration (or both) by one

¹ W. F. Willoughby, "Memorandum on the Adjustment of the Financial Relations between the Central Government, the Provincial and the Local Governing Bodies," *The Chinese Social and Political Science Review*, 1917, part 3, pp. 27-28.

² W. F. Willoughby, *The Chinese Social and Political Sc. Rev.*, *loc. cit.*, p. 28.

tax jurisdiction rather than by another.¹ The narrower the basis, the narrower may be the tax jurisdiction: the broader the basis, the broader must be the tax jurisdiction. Thus all consumption or expenditure taxes such as customs duties, salt gabelle, wine and tobacco excise, stamp duty, etc. should by nature be administered and utilized by the national government, inasmuch as their basis is nation-wide and uniformity of rate and control of assessment is absolutely essential. The fact that the tariff policy overlaps the field of diplomacy, which is especially true for China, further strengthens the advisability of allocating customs duties to the national government. Such other nation-wide excise taxes as the tea tax, the sugar tax, the fishery tax, and the proposed (1913) production tax should also be assigned to the national government. The proposed (1913) note-issue tax should also naturally be allocated to the national government which controls all matters concerning currency and coinage.

The various kinds of business taxes (such as mining royalties, business-license tax and fee, pawn-shop license and fee, and the proposed business tax (1913) should be provincial or local sources of revenue, inasmuch as their basis is still limited to one province only. Even if it should reach over into the other provinces, the provinces and localities in which these businesses are conducted and make their profits should have power to require them to contribute something towards the support of the provincial or local government in proportion to the volume of business transacted within their own territory.

As to the direct taxes such as the age-long land tax, the already promulgated income tax (Jan. 1, 1921), and the pro-

¹Edwin R. A. Seligman, *The Income Tax*, 2nd ed., 1914, p. 643.

posed succession or inheritance tax (1913),¹ though the latter two are nation-wide in basis and hence needing a national tax jurisdiction for the control of assessment, they should nevertheless be all utilized and appropriated to the provinces. True it is that, the income and inheritance taxes have all been recently allocated to the national government in France, Great Britain, and even in the United States of America, the home of state sovereignty and state and local direct taxes, etc. This has been so because of the increasing and widening demand on the respective central or federal authorities for the extension of governmental functions. The tendency is nowadays just the opposite in China. China has had too much seeming benevolent despotism, and now is the time to get rid of this pernicious restriction, however nominal it may be, on the initiative, energy, and intelligence of the people and to develop provincial and local self-government as completely as possible, with the least possible interference from the central government compatible with the attainment of maximum efficiency in effecting national unity and in heightening national

¹ Owing to the existence of a family system by which any inheritance can be handed down to the male offspring without will, an inheritance tax would be rather difficult to execute in China. We are told by Dr. H. C. Chen, however, that this form of taxation was at least thrice practiced in the annals of Chinese history. Quoting Dr. Chen directly:

"In the kingdom of Latter Shu (907-65 A. D.), when people married, their dowries were assessed and taxed. This was the first time that the dowry tax occurred in history. But it was abolished in 1524 A. K. (or 973 A. D.) by Sung Tai Tsu."

"The true inheritance tax began in 1670 (1119 A. D.). All the testaments, or bequests to daughters, were required to be stamped with the official seal and to pay a tax. But this tax was abolished after a short time."

"According to the stamp-tax act of 2458 A. K. (1907 A. D.), every testament was required to be pasted with a stamp of one thousand copper coins. But this act has not been universally enforced." (*The Economic Principles of Confucius and His School*, p. 681.)

strength. If the fiscal recommendations should be consistent with the political recommendations set forth in the previous chapter, then the income and inheritance taxes must also be assigned to the provincial governments, for China needs provincial and local development today above all her other urgent problems.

The administration of these two direct taxes, however, should be intrusted to the national government, in order to avoid double taxation. Unlike real estate, income has no situs. It is not infrequently the case that the inhabitants of one province may derive, in part or in entirety, their income from other provinces. If the provincial authorities should administer the income tax, the cry of hardship due to double taxation on the part of the income taxpayers would inevitably arise. The same thing is also true of the inheritance tax, for a decedent's properties may be scattered over more than one province. If the national government should administer and control the assessment, unify the rate, and manage the levy of these two taxes, such hardship and inequality would soon disappear. Of course, if without central interference the provinces could effect inter-provincial comity or agreements, as has been proposed and agitated in America, central administration would be unnecessary; but such procedure would entail too much inter-provincial bickering and consequent loss of fiscal efficiency. Another way of central interference to prevent the gross injustice of double taxation is the enactment of a national law imposing upon the separate provinces a certain degree of uniformity of action such as the German imperial act of 1909 regulating the entire subject of double taxation and requiring the commonwealth income-tax laws to conform to its provisions. But this procedure, while equally encroaching upon the right of self-determination of the provinces, is also devoid of fiscal efficiency. Why should not we, then,

adopt the method of national administration and thus, at one blow, eliminate all the troubles of double taxation, inter-provincial negotiation and bickering, and parliamentary legislation. Moreover, if, in the future, there is demand for the extension of governmental functions and powers to the central authority, and hence if it will need more financial resources it can easily take over the income and inheritance taxes.¹

Pending such development and in accordance with the proposal of allocating the two taxes to the provincial governments, their proceeds should be returned, in proportion to the fraction of the total yield of each province, to the respective provinces by the national government after the deduction of the necessary expenses for their assessment and collection.

If the provincial bickering over the method of distribution of these yields proves to be too annoying, it is here recommended as an alternative that the national authority should keep the proceeds of the income and inheritance taxes and use them exclusively for the purpose of the central grants-in-aid to the provinces.

Before proceeding to discuss the reasons why a system of grants-in-aid should be adopted in China and the methods by which it may be carried out, let us first turn to a more important problem as to the tax jurisdiction to which the land tax should be allocated.

Hitherto the land tax in China has been a national tax from time immemorial. As a corollary to a rather decentralized political system, as recommended in the preceding chapter, it is further recommended that the land tax should hereafter be an exclusive source of revenue for provincial

¹ When such time comes, the provinces can impose supplementary rates on the national income and inheritance taxes, if they need revenue.

and local purposes, in letter as well as in spirit. This recommendation is based on the following considerations.¹

(1) Fiscally speaking, with the introduction of a decentralized political system, the central government can forego its claim on the land tax, for then its expenditures will be greatly reduced, and the provincial and local governments must have an exclusive claim on it as a most fitting and proper new source of revenue, for then their expenditures will be greatly enhanced. Moreover the appropriation of this tax for provincial and local purposes exclusively would not entail unbearable hardship on the central government, for the reason that its returns in the form of matricular contributions are only a small fraction of its total (about one-third), that a large portion of the official returns are sent back to meet provincial and local needs, and that other taxes such as likin or the commodity tax² whose partial proceeds formerly went to meet provincial and local

¹ Mr. Kuan Yin Wu, a well-known Chinese publicist, advanced three general arguments for the assignment of the land tax to the provincial and local governments, one of which is quite ingenious. He is of the opinion that the existing inaccuracy in the statistics of acreage of land in China is due to local concealment in order to avoid national taxation. If the tax should be transferred to the localities, then this concealment would most probably disappear, for the local ratepayers would check each other so that no body could shun his duty. The other two arguments are (1) dealing with theory, basing the argument on the benefit theory, the local fiscal stability due to the certainty of the tax, the arousing of the people's sense of responsibility, etc., and (2) dealing with the fiscal adequacy of the central government, stating that the central authority can impose new taxes and undertake public industries for profits to offset the loss of the land tax.

("Appropriation of the Land Tax for Local Purposes," *The Justice [Yung Yen Pao]* Shanghai, vol. i, nos. 1-4, from Dec. 1, 1912 to Jan. 16, 1913, vol. i, no. 6 and no. 8. Also Tsai Chieh Yen, *Land Taxation of China, an account of the Existing System and Recommendations for Reform*, ch. iv, pp. 32-46.)

² When China can add 2.5% on her tariff as a condition for abolishing this obnoxious transit tax, the central government will be still better off.

needs can be made an exclusive national tax in order to offset the loss, if any, of the land tax.¹

(2) Theoretically speaking, the land tax is a direct tax which is better suited to serve as a local tax than a national tax. Professor Seligman says that real estate is naturally a local tax, because its basis is narrow and limited to the immediate locality.² Professor Bastable states that:

both abstract reasoning and experience tend to show that a large proportion of the local taxation must be obtained from

Huang, H. L., *op. cit.*, pp. 134-5.

The reason why the exclusive appropriation of the land tax for the provincial and local purposes would not entail unbearable hardship on the central government can be further shown by the following figures of the proceeds of the land tax in the provincial budgets in 1913, 1914 and 1916 and of the matricular contributions for the corresponding years:

<i>Year</i>	<i>Land Tax</i>	<i>Matricular Contribution</i>
1913	\$82,396,602	\$32,418,530
1914	79,227,809	29,737,013
1916	97,553,513	25,737,600

The above figures presuppose that the matricular contributions are derived from the land tax alone; but, as a matter of fact, they are derived from a provincial common purse and the land tax contributes only a share. Thus it is evident that the land tax is practically a provincial and local tax, although nominally a national tax.

Again, if the commodity tax or *likin* (also known as the inter-provincial transit tax) is transferred so as to be an exclusive national tax (the commodity tax is not included in the national budget, but in the provincial budget), it will more than offset the loss of matricular contributions. Let the following figures tell the tale:

<i>Year</i>	<i>Matricular Contribution</i>	<i>Commodity Tax</i>
1913	\$32,418,530	\$36,882,877
1914	29,737,013	34,186,047
1916	25,737,600	40,290,084

(Cf. S. Y. Chia, *op. cit.*, pp. 39, 81, 90 and 98.)

¹ Seligman, *Essays in Taxation*, 1921, p. 643.

this important "object" (land). In the rural districts there is little else to be taxed, and in the case of towns the value of the land is so much increased by the action of social conditions that it forms a most suitable mark for the larger taxation that the wants of the urban societies make necessary. . . . The theory of incidence also supports this view . . . it has definiteness of incidence in its favor; while its pressure falls on a form of wealth that is likely to grow without effort on its owners' part.¹

(3) Administratively speaking, a national land tax in such an extensive country as China is fraught with administrative difficulties and inefficiency due to the largeness of the task and the extremely divergent conditions of the provinces. The provincial and local bodies are much more competent to determine the proper tax rate and the proper tax unit (or rather the unit of measurement) and to introduce and carry out the cadastre which is indispensable and the most important step in land tax reform in China.

With the land tax, the title deeds tax, which the Revenue Separation Bill of 1913² assigned to the central government, should by nature be allocated to the provincial and local governments, inasmuch as the land and the deed always go together and accordingly taxes on them should go together.

To recapitulate, the scheme proposed here for a complete separation of revenue between the central and the provincial governments may be summarized as follows:

1. National revenues:

- (1) Maritime customs duties,
- (2) Regular customs duties,
- (3) Likin or commodity tax or transit tax (to be abolished after the raising of the tariff),

¹ C. F. Bastable, *Public Finance*, 3rd ed., 1903, pp. 396-7.

² *Supra*, p. 76.

- (4) Tobacco and wine excises,
- (5) Other consumption taxes on tea, sugar, fishery, etc.,
- (6) Stamp tax,
- (7) Production tax (prospective),
- (8) Note-issue tax (prospective).

2. Provincial and local revenues :

- (1) Land tax,
- (2) Title-deeds tax,
- (3) Business-license tax and fees,
- (4) Pawnshop-license tax and fees,
- (5) Business taxes (prospective),
- (6) Mining royalties,
- (7) Income and inheritance taxes (prospective).

Partial Separation of Sources of Revenue between the Provincial and the Local Governments

Although a province is too small a territory for a complete separation of revenue between the provincial and the local governments,¹ a partial separation is nevertheless ad-

¹ The disadvantages of a complete separation of revenue between the provincial or state and the local governments have been eloquently pointed out by Prof. Seligman. First, the demarcation of governmental functions of the different grades of governing bodies is not always clear cut (which fact is more true of the provincial or state and the local governments than of the central and the provincial governments) and therefore the contention that a complete separation of revenue between the provincial and the local governments conforms to the natural division of governmental functions and activities does not hold. Second, a system of complete separation of revenue may lead to fiscal embarrassment of both the provincial and the local governments, inasmuch as there is no transfer of surplus to deficit, thus losing the very advantage of a consolidated fund system which always allows room for fiscal adjustment between the different governing bodies concerned. (*Essays in Taxation*, 9th ed., 1921, pp. 667-8.) Prof. Bullock also holds a similar view. He says: "I do not say that there is never a coincidence between the allotment of functions and the allotment of revenues, indeed, the customs revenue of the national government furnished an example of such coincidence; but I do maintain that the controlling

visible. Certain taxes are naturally more adapted to be exclusively local or municipal revenues. For instance, the house or habitation tax, the local consumption taxes and licenses such as the live-stock tax, the rice and cereal duty, the opium duty, the oil and sauce duty, the boat duty, the miscellaneous commodity duties, the meat duty, the butchery duty, the small-business shop duty, the theatre duty, the carriage duty, the sing-song girl or prostitution license duty, the tea-house duty, the restaurant duty, the carriage-bearer or rickshaw license duty, the domestic servant tax, the octroi, etc. are by nature local or municipal sources of revenue. Along with the approaching industrialization of China, another important source of local or municipal revenue will be the land value tax.¹

Other exclusively local or municipal sources of revenue that may be mentioned in passing are the special assessment, special charges (fees and licenses) for services rendered and privileges conferred, fines and penalties, regulatory taxes,² municipal monopolies, etc.

So much for the exclusively local or municipal revenues; we may now turn to the exclusively provincial revenues. With the exception of the land, the income, and the inheritance taxes, all the other sources of revenue, such as the title-

factor in the distribution of functions is administrative convenience, that the controlling factor in the assignment of revenues should be comparative fiscal needs, and that between the two there is no necessary and automatic connection." (*Readings in Public Finance*, 1920, p. 448.)

¹ Cf. Seligman's view on the question in *The Final Report of the Committee on Taxation of the City of New York*, 1916, p. 114; J. A. Hobson's view in his book *Taxation in the New State*, New York, 1920, pp. 241-251; and Luther H. Gulick's view in his article "A Model System of Municipal Revenues," *The Bulletin of the National Tax Association*, vol. vi, 1920-1921, p. 81.

² The regulatory taxes, for illustration, are the dog licenses, taxicab licenses, the bowling alley and pool room licenses, vacant land tax, tax on sign-boards, etc.

deeds tax, the business-license taxes and fees, the pawnshop-license taxes and fees, the general business taxes (proposed), the mining royalties, etc., that are assigned to the provincial government on the page 126, should be exclusively provincial.

Besides the above mentioned sources of revenue, the provincial government may also impose special assessments, special charges for services rendered and privileges granted, fines and penalties, etc. for its own purposes and also undertake public industries for revenue.

The land, the income, and the inheritance taxes should be held as common sources of revenue for both the provincial and local governments. The first should be common in order to secure the unified assessment of the land in each province, to retain the connecting link between the provincial and the local governments, and to preserve the sense of responsibility of the provincial authority in the matter of local taxation as well as in its own budget-making and expenditure.¹ A very high percentage of the proceeds of the land tax collected under a unified provincial control and administration should, of course, be returned to the localities.

When the prospective income and inheritance taxes should be enforced by the national government on behalf of the provincial governments, the quota received by each province should be held in common for both provincial and local purposes in order to secure elasticity and flexibility in the provincial and local finances and to permit a system of provincial grants-in-aid after the model of the central or

¹ Cf. the Preliminary Report of the Committee of the National Tax Association upon a Plan of a Model System of State and Local Taxation, *Proceedings of the Twelfth Annual Conference of Taxation* under the auspices of the National Tax Association of America, 1919, pp. 426-70, and also Charles J. Bullock, *Readings in Public Finance*, 1920, ch. xiii, sec. 58, pp. 491-532.

national system of grants-in-aid. This leads us to a discussion of the reasons why China should adopt such a system and the methods by which this system may be successfully carried out.

In order to reconcile liberty and efficiency and to counteract the inevitable tendency of a system of complete provincial and local self-government such as is recommended in the preceding chapter towards a state of anarchy of provincial and local autonomy in education, sanitation, charities, means of communication, etc. such as is already experienced in America to a great extent¹ and in Canada to some extent, a system of grants-in-aid, as so eloquently and convincingly presented by Mr. Sidney Webb,² the well-known Fabian socialist, should be adopted by the central (or federal) government of China for the self-governing provinces on the one hand, and by the provincial governments for the self-governing districts, cities or municipalities, towns and villages on the other. The reasons for this recommendation are as follows: ³

(1) In the first place, it simply continues the old practice in China, admirable in purpose but to be condemned in procedure and method, of making up the deficiencies of the poor provinces with the surplus revenues of the rich ones. As Mr. Webb puts it, it is intended to prevent an extreme inequality of burden between one district (or province or locality in our case) and another and to enforce a "national minimum" of efficiency in (provincial and) local services and in the well-being of all the people within the nation.

¹ Webb, *op. cit.*, pp. 4-5.

² *Ibid.*, pp. 4-6, 15-25.

³ For a representative view of opposition to a system of central grants-in-aid, see Richard Higgs, *The Control of Public Finance*, 1919, especially chapters vii, viii and x. But his view is rather a reaction against the bureaucratic tendency in British administration.

(2) In the second place, it purports to secure central control over the provinces indirectly and in a decent manner. While it does not discourage provincial initiative or hurt provincial self-respect and pride on the one hand, it secures a sufficient degree of centralization, standardization, and uniformity of national administration on the other. It accomplishes the latter by giving to the provinces the advantage of the wisdom of experience, of the superiority of knowledge and of the breadth of view of the central government and by giving weight to the suggestions, criticisms, and authoritative instructions by which the central authority seeks to secure greater efficiency and economy in the provincial administration.¹

The same arguments advanced here for the adoption of a system of central or national grants-in-aid for the provinces can also be exactly applied to the adoption of a system of provincial grants-in-aid for the districts, cities or municipalities, towns and villages.

The basis for determining the amount of the grants-in-aid should be equality. Such crude bases as population, assessed valuation of real estate, and taxes paid to the province (or to the nation), should have no place here, for they violate the first principle of the grants-in-aid which is to equalize the burden between the rich districts or localities (or the rich provinces) and the poor districts or localities (or the poor provinces).² If any of these three bases should be introduced in China to determine the amount of the grants-in-aid at all, the later should bear an inverse ratio to the former, that is to say, the more populous or wealthy a dis-

¹ Cf. Webb, *op. cit.*, pp. 18, 21-22.

² "The way actually to aggravate this inequality (inequality of wealth), and to transfer the grant in aid from a beneficent to a maleficent force, is to make it vary in proportion to the rateable value of each district." (Webb, *op. cit.*, p. 17.)

strict or locality (or a province) is, the smaller proportion or percentage of grants-in-aid it should get as compared with its population, wealth, or taxes paid to its superior. The other mechanical methods of allocating grants-in-aid such as the number of persons treated, the number of officers engaged, at so much per head, at a certain proportion of the salaries paid, at so much per school place or per hospital bed, at a given sum per attendance at school or per week per patient, etc. should also have no place here.

To make the whole system effective and fruitful, the following general principles governing the administration of the grants-in-aid are suggested:

(1) Grants should only be given to services in which the general interest is predominant, and on which it is generally considered desirable to stimulate expenditure. In no case should grants be given to objects which directly and obviously raise the value of fixed property in any locality.

(2) Grants should be made by a responsible board specially created for the purpose and given directly to the provincial (or local) authority in charge of the service, the latter being subject in all cases to thorough periodical inspection and criticism.

(3) Grants should be conditional on the amount of work done and the degree of efficiency obtained in the service, and variable, so as to increase the effectiveness of the central (or provincial) supervision and criticism.

(4) Allocations of grants should be so arranged as to minimize the inequalities between different provinces (or localities in a province) in respect of expenditures on provincial-national (or loco-provincial) services.

(5) Grants should, for financial and administrative reasons, be kept, as far as possible, at the lowest proportion necessary to achieve all the purposes of the grants-in-aid.

The provincial (or local) interest in economical administration should by all means be maintained.

(6) For the convenience of the national (or provincial) treasury the total of the grants might be fixed for a certain specified term of years, the details of allocation, and the special regulations governing them, being subject to periodic revision. Of course, the sum that a province can set aside for the purpose of aiding the localities is dependent upon its quota of the yields of the income and inheritance taxes distributed or granted by the national government—thus making the local and provincial situation uncertain. But this difficulty can easily be overcome by a somewhat arbitrary method of allocating the national grants in inverse proportion to the wealth and population of the respective provinces. The provincial governments should then be held responsible for the efficient administration of loco-provincial services by their respective localities.

Constitutional, Legislative, and Semi-Administrative Controls of Provincial and Local Finances.

Again, in order to safeguard the provinces from extravagance and heavy debt, it is recommended that some limitation on the tax rate and the amount and term of indebtedness is desirable and should be provided in the National Constitution; and under no circumstances should any province contract foreign loans without the knowledge and permission of the central (or federal) government.¹ This recommendation seems inconsistent with the political recommendations set forth in the preceding chapter. As a matter of fact, too much decentralization is just as bad and undesirable as too much centralization. Centralization to some extent is necessary and desirable; this centralization,

¹ See *supra*, pp. 67 et seq.

however, should not be effected through political appointments and bureaucracy, but through a financial control which is, in fact, even more subtle and fruitful in preventing the anarchy of provincial autonomy on the one hand and in encouraging provincial self-government on the other.

Similarly, the power of districts, cites or municipalities, towns and villages to impose taxes and to contract loans for local purposes should be limited by the provincial constitution. By way of suggestion, the provincial constitution should provide that the local tax rate should not exceed 10%, that the local debt limit should not exceed 10% of the assessed valuation of the real estate within its territory, that the term of the local debt should not exceed the life of the improvement for which it is incurred, and that the purpose of borrowing should be exclusively for local improvements and capital outlays. Under no circumstances should the borrowings be made for current administrative expenses except in this case revenue bonds in anticipation of revenue (to be resorted to only under exceptional circumstances in order to save interest charges) and the special revenue bonds to meet emergencies. As regards the forms and methods of local taxation, they should be prescribed by the provincial law. Local option and discretion should not be allowed to go too far.

In order to enforce the provisions of constitutional control of provincial finances and that of constitutional and legislative control of local finances, some organ of direction, supervision, inspection, and criticism and advice is necessary. The Ministry of Finance at Peking (or elsewhere) should, therefore, create a Board of Provincial Finances whose duty it would be (1) to investigate periodically and inspect through experts the financial condition of the provincial governments in the country, (2) to offer advice as to how provincial finances can be improved, (3) to receive provincial

reports and analyse them and give a consolidated statement of the finances of all the provinces of the nation, and (4) to see to it that the conditions for the central (or federal) grants-in-aid have been duly and properly carried out by the provinces aided and that the constitutional provisions concerning the tax rate, the debt limit and term and purpose have been strictly observed. In conformity to the principle of provincial self-government, this board should be more advisory than administrative. In connection with the central (or federal) grants-in-aid, the board should co-operate with the Board of Provincial Government consisting of several cabinet ministers as recommended in the preceding chapter.¹

Similarly, every province should create a Board of Local Finance whose duty it would be (1) to prescribe fitting and uniform financial, budgetary, bookkeeping, accounting and reporting systems for the different grades or classes of the local self-governing bodies, (2) to supervise the operation of these systems and give advice, (3) to receive and analyse the local financial reports and give a consolidated statement of the local finances of the province, and (4) to see to it that the conditions for the provincial grants-in-aid to the localities have been duly and properly carried out and that the constitutional and legislative provisions concerning the local taxation, the local debt limit and term and purpose have been strictly observed. In order to carry out its functions effectively, this board should have the power to appoint a staff of travelling inspectors (to be called the commissioners of accounts) whose duty it would be to inspect and report upon the manner in which the financial, budgetary, bookkeeping, reporting and accounting systems were being operated by the localities, the conditions of local taxation

¹ See *supra*, p. 146.

and indebtedness, and the efficiency of the provincially aided local (or loco-provincial) services. The inspectors should never go beyond their prescribed functions of mere investigating, visiting, and instructing or advising. As to auditing and correcting of local accounts, not only have they no time for it, but the local sense of self-respect and responsibility would also be trampled upon. Hence, the auditing of local financial statements and accounts with all necessary attached documents and evidences should be performed only by the local auditors chosen by the local legislature or otherwise. The French centralized system of auditing of local accounts by a national court of accounts or by the general council (or the prefecture or departmental council) is incompatible with the fundamental principle of local self-government which demands a due respect from above for a local sense of self-respect and responsibility.

In connection with the provincial grants-in-aid, the Board of Local Finances should co-operate with the Board of Local-Government consisting of several provincial departmental heads as recommended in the previous chapter¹ in the same spirit in which the Local-Government Board at London co-operates with the Board of Trade, the Home Office, the Board of Agriculture and the Board of Education.

Regarding the important financial provisions which ought to be inserted in any city charter or general local government act to be enacted by the provincial legislature, the following features deserve our special attention and endorsement:

(1) That the local districts, cities or municipalities, towns and villages shall have no power to levy taxes or to impose charges or dues of any kind except such as are authorized

¹ See *supra*, p. 146.

by the organic acts enacted by the legislature of the respective local governing body concerned.

(2) That it shall be obligatory for each local governing body to provide for the total revenues to be collected and the total expenditures to be made during the fiscal year by the annual consolidated finance act.

(3) That provision shall first be made in the local finance act for meeting any interest or sinking-fund charges or any other payments on account of indebtedness incurred, any payments required by the general law (e. g. "obligatory functions", and provincial taxes), and any unliquidated obligations coming over from the operations of the previous year.

(4) That the total of local expenditures shall not exceed the total of local revenues.

(5) That, as a basis for the preparation of the local finance act, the chief executive of the district, the city or municipality, the town or the village shall submit to the fund-raising and granting or appropriating body a budgetary statement in which he shall give the condition of the treasury, namely, the total resources and liabilities of the locality at the time of the preparation of the statement.

(6) That local revenues and expenditures shall be classified, the form of the local budget shall be standardized with comparative figures for three or four years, and the system of accounts and reports which shall make known such facts shall also be standardized.

The advantages derivable from these financial provisions in the city charters and the general local government acts are chiefly (1) to insure the local taxpayers against the arbitrary and illegal exactions which had been so prevalent in China due to the corruption of officialdom and the inefficient administrative control, (2) to insure solvency and financial credit of the local governing bodies, and (3) to

insure an orderly and proper financial conduct of these local governing bodies.

Theory and Practice.

The above scheme of a complete separation of revenue between the national and the provincial governments, a partial separation of revenue between the provincial and the local governments, the reconciliation between liberty and efficiency to be brought about by a system of grants-in-aid from the national government to the provincial governments and from the provincial governments to the local governments and by a system of constitutional, legislative and semi-administrative control of provincial and local finances, is entirely dependent upon the political recommendations. If the latter fails of adoption, the former becomes meaningless.

Assuming that the latter will be adopted, we still find some obstacles to the realization of the former.

In the first place, the idea that all the lands in the country belong to the Emperor (*Poo tien chih shia, moo fee wang too*) and hence that the land tax should be a national tax, is pretty hard to shatter. Thus the proposal that the land tax should be allocated to the provinces and the localities would certainly meet the deaf ears of the conservative and benighted elements in the Chinese population.

In the second place, the system of grants-in-aid has very little chance to succeed if the people (and especially the merchant class) are against the enforcement of the income tax and the introduction of the inheritance tax, inasmuch as the former depends upon the latter. The anachronous family system and ancestral-worship would surely work against the introduction of the latter tax even as a revenue measure, not to mention it as a social measure. They form in fact the bulwark of private property in China. Any

tax that might be misconstrued as anti-private-property would unfailingly meet the strong opposition of both.

In the third place, even if the income and the inheritance taxes can be enforced and collected, the opposition of the South-Eastern rich provinces to such a system as recommended above would also be enormous. For, as in America, the possible conflict of sectional economic interests in China is a force that must be reckoned with in a system of distributing national grants to the various provinces in inverse proportion to their wealth and population. Sectional economic selfishness is a grave problem that perplexes every statesman in every large country.

In the fourth and last place, the old corrupt officialdom might exert its pernicious influence against various kinds of efficient financial control which dry up their sources of profits or illegal acquisition. This is altogether natural; but the right and the efficient must triumph at any cost.

Progress is costly and painful. While it is admitted that evolution is much better as a measure of reform than revolution, a steadfast militant spirit of reform is necessary in order to subdue the old inefficient and unscientific systems, organs, and institutions. To conclude this chapter, the writer can do no better than to quote Professor Fred Rogers Fairchild of Yale, who, while advocating an ideal system of taxation for New England, said:

Only by having an ideal set before us may we hope to make progress. Even though our goal may never be reached, we may at least have some confidence that what progress we do make is in the right direction and is good so far as it goes.¹

¹ "The Ideal System of Taxation for New England," *Bulletin of the National Tax Association*, vol. ii, 1916-1917, p. 187.

CHAPTER VII

FISCAL RELATIONS BETWEEN THE LEASED TERRITORIES, THE FOREIGN SETTLEMENT AND THE CENTRAL GOVERNMENT

IN order to make this monograph a complete and logical whole, the fiscal relations between the leased territories and foreign settlements or concessions in China and the central government should also be briefly considered.

The history of the leased territories in China is an unpleasant one. It was and still is the theory of international balance of power working in the Far East, particularly in an independent and sovereign but economically and militarily weak nation, China. In 1898, when Germany, on pretext of the murder of two German missionaries in a certain district of the province of Shantung, demanded and secured the lease of *Kiao-Chou* Bay for 99 years from the Chinese Imperial Government, Russia demanded and secured the lease of *Port Arthur* and *Dalny* for 25 years; France, that of *Kuangchow Wan* (or bay) for 99 years; Great Britain, that of *Kowloon* for 99 years to counter-balance France in the South and that of *Wei-Hai-Wei* for 25 years to counterbalance Germany and Russia in the North. In 1905, the Russian leased territories in China passed into the hands of Japan, as a result of the Russo-Japanese War. As a result of the late Great War, the German leased territory in China also passed into the hands of Japan, in spite of China's protest in the Versailles Peace Conference, 1919.

By lease is meant the transfer of title within an agreed

period of time, the lessee to pay a certain sum or rent to the lessor per annum or otherwise.¹ Although China's sovereignty is not surrendered,² she gets no rent nor can she impose any tax on the properties and the persons within the leased territories; these properties and persons are only subject to taxation by the governing or leasing power. It was in the *Kiao-Chou* leased territory that Germany made the first successful experiment with the unearned increment tax. Even the customs revenues at *Kiao-Chou* were not entirely China's; 2% had to go to the German government of the leased territory.³ Since Japan seized it in 1914, China has been further deprived of the proceeds. What has been true of *Kiao-Chou* has also been true of all the other leased territories in China.

Less humiliating than the leased territories to China are the "foreign concessions" or "settlements" at the so-called "treaty ports". The significance of such a concession or settlement is the permission by the Chinese Government to the foreigners concerned to set up and maintain local administrative agencies for public purposes, sanitation, making of roads, providing building regulations, etc.⁴ The administrative organs thus created levy taxes, the proceeds of which must be wholly devoted to the performance of these local administrative tasks. They may not be levied for any other purposes and the Chinese Government has no share in them. Although some form of land tax in cer-

¹ According to Funk and Wagnall's *New Standard Dictionary of English Language*, a lease is "a contract for the possession (and profits) of lands for a determinate period (less than the time for which the lessor holds the same) in consideration of a recompense of rent."

² For treaty stipulations to that effect, see V. K. Wellington Koo, *The Status of Aliens in China*, pp. 252-4.

³ Chin Chu, *The Tariff Problem in China*, p. 66.

⁴ W. W. Willoughby, *Foreign Rights and Interests in China*, pp. 213-4; also Koo, *op. cit.*, pp. 230-231.

tain settlements is still collected by the Chinese Government, China's right not only of general taxation but also of tariff imposition has come to naught in such concessions or settlements.¹ China at present can tax neither foreign products nor Chinese goods in such special areas for foreign trade and residence beyond what is allowed by the treaties.

For instance, in October, 1919, the Chinese Government levied a stamp tax becoming effective March 1, 1914, on bills of lading, shipping companies' receipts, consignees' receipts and other documents relating to exports and imports. All the treaty Powers except the United States of America protested against the revenue measure, charging that the tax was a violation of the Provisions in China's treaties with the Powers. The Chinese Government nevertheless continues to insist upon its right to levy the stamp tax and, in fact, in many cases, it is collected.² Thus, even China's sovereign right to impose stamp duties on evidences of goods for exportation and importation is challenged in the foreign concessions or settlements, and yet it is explicitly stated in the treaties and reiterated in diplomatic correspondences time and again that China's sovereignty is intact therein.

Of the injustices done China by the treaty Powers by restricting her tariff-making power and by imposing extra-territoriality on her, it is not within the scope of this monograph to treat.

With the downfall of the old despotic monarchy and the inauguration of a republican form of government, the Chinese nation has fully realized her precarious international situation. No foreign nation can save her from being subjugated and exploited by foreign militarism and imperialism; this can be done by her own people alone. A nation

¹ Chin Chu, *op. cit.*, p. 66.

² Willoughby, *op. cit.*, pp. 130-131.

with her tariff autonomy restricted by numerous treaties, with extraterritoriality imposed on her, with her best commercial ports and naval bases leased to the Powers, and with her sovereign right of taxation surrendered in the leased territories and in the foreign concessions or settlements, has much to overcome in order to enjoy full freedom, independence and sovereignty. China has been duly punished for her long isolation, for her extreme conservatism, and for her exceeding ignorance and disregard of the modern sciences. But with a popular move for political democracy, with a hopeful era of industrial modernization, and with a coming state of prosperity and strength, China can no longer permit such foreign intrusions on her inherent sovereign rights. No nation, if it has any sense of justice and fairness, can refuse China's just demand to restore the leased territories to their rightful owner, to abolish extraterritoriality and concessions or settlements, and to return to her sovereign right, as an independent nation, to determine her own tariff policy.

However successful the late Washington Conference might have been in other respects, its solution of the Chinese problem was far from satisfactory. Three out of the six leased territories are still to be retained indefinitely by Great Britain (*Kowloon*) and Japan (*Dalny* and *Port Arthur*).¹ The abolition of extraterritoriality is to take effect only when an international commission of jurists appointed for

¹ As a result of the Shantung Settlement between Japan and China through the good offices of the United States and Great Britain, the *Kiau-Chow* leased territory is to be returned to China by Japan immediately after the ratification of the agreement by the two contracting parties. As regards the British leased territory, *Wei-Hai-Wei*, in the North, and the French leased territory, *Kuang-Chow-Wan*, in the South, the two Powers concerned have before the Washington Conference, openly declared their intention to withdraw soon. (*New York Times*, February 2, 1922, p. 4.)

the special purpose shall report in its favor.¹ The alien post offices are still to stay in the leased territories and foreign concessions or settlements after January 1, 1923, although the other alien postal establishments shall be withdrawn from Chinese territory after that date.² The tariff restriction is still fastened on China and the rate is only increased to 5% effective *ad valorem*, with 2½% surtax if the likin or the inter-provincial transit tax is abolished as well as 5% surtax on the luxuries.³

Although the late Washington Conference gave some manifestations of an awakened international conscience (or perhaps more truly of an enlightened self-interest of the Powers), it would be foolish to have expected a complete *volte-face* of the former aggressive Powers; and the Chinese people, without any hatred or malice towards them, must work out their own destiny.

¹ *New York Times*, Nov. 30, 1921, p. 3.

² The alien postal agencies at present in China may be listed as follows:

France	13.
Great Britian	12.
U. S. A.	1.
Japan	124.

The Japanese postal establishments are further classified as follows:

First class offices	7
Second class offices	23
Third class offices	4
Unclassed offices	10
Sub-offices	3
Box offices	1
Agencies	33
Letter Boxes	33
Field Post Offices	

(*The China Year Book*, 1921-2, p. 479.)

³ *New York Times*, Jan. 6, 1922, p. 4.

APPENDICES

APPENDIX I

MATRICULAR CONTRIBUTIONS AND CENTRAL SUBSIDIES OF THE PROVINCIAL
AND TERRITORIAL GOVERNMENTS OF THE CHINESE EMPIRE AS SHOWN
IN THE BUDGET OF 1911 (THE LAST YEAR OF THE *Tsing* DYNASTY)

<i>Provinces or Territories</i>	<i>Total Revenues</i>	<i>Total Expenditures</i>	<i>Matricular Contributions</i>	<i>Central Subsidies</i>
Anhui	\$7,811,948	\$3,185,666	\$4,626,282	
Chekiang	18,249,754	7,768,755	10,480,999	
Chihli	24,998,539	10,641,272	14,357,267	
Fengtien	17,265,018	13,502,262	3,762,756	
Fukien	11,533,419	6,312,803	5,220,616	
Heilungkiang	5,798,618	4,607,039	1,191,579	
Honan	12,042,370	6,011,721	6,030,649	
Hunan	10,480,526	4,708,967	5,771,559	
Hupei	20,242,711	9,231,684	11,011,027	
Kangsu	2,740,796	3,128,147		\$387,351
Kiangsi	11,550,133	5,264,842	6,285,291	
Kiangsu	63,315,514	22,141,573	41,173,941	
Kirin	12,138,652	8,926,834	3,211,818	
Kuangsi	6,570,776	4,805,098	1,765,678	
Kuangtung	35,530,696	13,782,713	21,747,983	
Kweichow	1,681,209	2,542,694		\$861,485
Shansi	10,319,219	2,972,151	7,349,068	
Shantung	17,137,250	6,297,861	10,837,389	
Shensi	6,928,624	3,968,357	2,960,267	
Sinkiang	1,583,967	3,369,989		1,786,922
Szechuan	30,047,575	13,229,496	16,818,079	
Yunnan	5,570,202	7,747,176		2,176,973
Altai	2,454	223,748		136,625
Chahar	155,926	601,255		445,329
Chuanpian	111,750	1,104,538		992,788
Cobdo	5,040	49,270		44,230
Ili	145,585	1,459,579		1,313,994
Jehol	911,010	1,451,712		540,712
Kweihua	222,839	36,291	186,548	
Metropolitan				
District	213,675	98,030	115,645	
Suiyuan	15,073	410,547		395,474
Tarbagatai	1,497	138,122		136,625
Tibet		1,739,383		1,739,383
Uliassutai	6,352	81,275		74,923
Urga	612,930	823,171		210,241

Total \$335,940,748 \$172,366,021 \$174,902,441 \$11,327,714

Balance for the Central Government \$163,574,727

(Adapted from S. Y. Chia, *The Financial History of the Republic*,
vol. i, pp. 47-8.)

APPENDIX II

MATRICULAR CONTRIBUTIONS AND CENTRAL SUBSIDIES OF THE PROVINCIAL
AND TERRITORIAL GOVERNMENTS OF THE REPUBLIC OF CHINA AS
SHOWN IN THE SECOND YEAR BUDGET OF THE REPUBLIC (1913)

<i>Provinces or Territories</i>	<i>Total Revenues</i>	<i>Total Expenditures</i>	<i>Matricular Contributions</i>	<i>Central Subsidies</i>
Anhui	\$6,069,078	\$4,602,182	\$1,466,896	
Chekiang	13,315,873	7,552,382	5,763,491	
Chihli	10,391,781	9,830,067	561,714	
Fengtien	14,160,984	7,493,901	6,667,083	
Fukien	5,593,715	4,351,559	1,242,156	
Heilungkiang	3,867,608	3,991,494		\$123,886
Honan	10,093,902	7,339,549	2,754,353	
Hunan	7,175,406	5,364,302	1,811,104	
Hupei	7,817,585	11,170,498		3,352,913
Kangsu	4,224,666	2,942,149	1,282,517	
Kiangsi	7,991,724	5,549,546	2,442,178	
Kiangsu	15,279,112	13,340,842	1,938,270	
Kirin	6,105,285	4,810,436	1,294,849	
Kuangsi	3,215,077	6,515,101		3,300,024
Kuangtung	15,592,301	18,075,425		2,483,124
Kweichow	1,550,760	3,035,656		1,484,896
Shansi	6,427,928	6,721,369		293,441
Shantung	11,247,902	8,806,304	2,441,598	
Shensi	5,084,607	4,927,032	157,575	
Sinkiang	1,645,920	6,815,704		5,169,784
Szechuan	14,386,248	11,822,969	2,563,279	
Yunnan	2,951,992	8,210,796		5,258,804
Altai		507,926		507,926
Chahar	82,889	583,685		500,796
Chuanpian		3,661,156		3,661,156
Ili	31,467		31,467	
Jehol	2,340,818	3,579,384		1,238,466
Metropolitan				
District	138,173	307,673		169,500
Siningchinghai ...		23,548		23,548
Suiyuan		1,131,846		1,131,846
Tarbargatai		40,542		40,542
Tibet		396,750		396,750
Uliassutai		205		205
Total	\$176,782,801	\$173,501,978	\$32,418,530	\$29,137,707

(Adapted from S. Y. Chia, *op. cit.*, vol. i, pp. 84-7.)

APPENDIX III

MATRICULAR CONTRIBUTIONS AND CENTRAL SUBSIDIES OF THE PROVINCIAL
AND TERRITORIAL GOVERNMENTS OF THE REPUBLIC OF CHINA AS
SHOWN IN THE THIRD YEAR BUDGET OF THE REPUBLIC (1914)

<i>Provinces or Territories</i>	<i>Total Revenues</i>	<i>Total Expenditures</i>	<i>Matricular Contributions</i>	<i>Central Subsidies</i>
Anhui	\$5,697,254	\$6,322,731		\$625,477
Chekiang	14,104,692	6,486,859	\$7,617,833	
Chihli	7,896,459	7,868,687	27,772	
Fengtien	11,795,734	9,738,134	2,057,600	
Fukien	5,366,469	3,674,467	1,694,002	
Heilungkiang	4,485,291	4,551,223		65,932
Honan	9,001,337	7,582,736	1,418,601	
Hunan	7,516,027	5,355,568	2,160,459	
Hupei	8,648,669	8,504,455	144,214	
Kangsu	2,377,683	3,103,477		725,794
Kiangsi	7,685,934	5,462,282	2,223,652	
Kiangsu	13,897,452	9,680,154	4,217,298	
Kirin	4,081,152	5,084,783		1,003,631
Kuangsi	2,585,448	5,896,100		3,310,652
Kuangtung	14,781,779	10,663,552	4,118,227	
Kweichow	1,376,925	2,514,882		1,137,957
Shansi	5,606,359	5,339,596	266,763	
Shantung	10,037,382	7,584,879	2,452,503	
Shensi	4,469,737	5,112,449		642,712
Sinkiang	1,572,948	4,729,870		3,156,922
Szechuan	10,323,490	8,985,401	1,338,089	
Yunnan	2,013,509	5,007,993		2,994,484
Altai	1,669	380,638		378,969
Chahar	93,455	464,639		341,184
Chuanpian	193,495	1,915,053		1,721,558
Jehol	869,007	1,727,330		858,323
Metropolitan				
District	763,303	836,975		73,672
Suiyuan	253,009	869,264		616,255
Tarbagatai		218,526		218,526
Tibet		402,200		402,200
Total	\$157,497,668	\$146,064,903	\$29,737,013	\$18,304,248

(Adapted from S. Y. Chia, *op. cit.*, vol. i, pp. 92-5.)

APPENDIX IV

MATRICULAR CONTRIBUTIONS AND CENTRAL SUBSIDIES OF THE PROVINCIAL
AND TERRITORIAL GOVERNMENTS OF THE REPUBLIC OF CHINA AS
SHOWN IN THE FIFTH YEAR BUDGET OF THE REPUBLIC (1916)

<i>Provinces or Territories</i>	<i>Total Revenues</i>	<i>Total Expenditures</i>	<i>Matricular Contributions</i>	<i>Central Subsidies</i>
Anhui	\$7,592,467	\$6,725,565	\$866,902	
Chekiang	13,972,845	8,466,649	5,506,196	
Chihli	11,208,377	9,868,693	1,339,684	
Fengtien	12,858,818	9,552,065	3,306,753	
Fukien	6,475,327	4,490,797	1,984,530	
Heilungkiang	4,815,215	5,325,224		\$510,009
Honan	10,796,061	9,304,468	1,491,593	
Hunan	7,430,435	6,177,726	1,252,709	
Hupeh	11,331,683	9,438,960	1,892,723	
Kangsu	3,817,895	3,439,345	378,550	
Kiangsi	9,609,110	5,403,811	4,205,299	
Kiangsu	17,752,536	12,378,605	5,373,931	
Kirin	5,818,582	5,274,064	544,518	
Kuangsi	4,221,773	5,597,221		1,375,448
Kuangtung	21,440,780	14,045,374	7,395,406	
Kweichow	1,590,983	2,850,637		1,259,654
Shansi	7,410,338	5,476,485	1,933,853	
Shantung	11,524,815	9,253,989	2,270,826	
Shensi	7,833,390	5,942,747	1,890,643	
Sinkiang	3,307,635	4,730,279		1,422,644
Szechuan	11,551,052	10,876,297	674,755	
Yunnan	2,903,155	6,086,363		3,183,208
Altai		387,298		387,298
Chahar	610,305	687,208		76,903
Chuanpian	525,695	2,063,881		1,538,186
Cobdo		65,132		65,132
Jehol	936,722	1,669,456		732,734
Kiachta		62,972		62,972
Metropolitan				
District	858,313	1,000,287		141,974
Suiyuan	458,812	1,033,373		574,561
Tarbargatai		229,477		229,477
Tibet		401,000		401,000
Uliassutai		68,972		68,972
Urga		194,416		194,416
Total	\$198,653,119	\$167,568,836	\$42,308,871	\$12,224,588

(Adapted from S. Y. Chia, *op. cit.*, vol. i, pp. 101-3.)

APPENDIX V

SUMMARY OF THE PROVINCIAL AND TERRITORIAL SELF-GOVERNMENT
BUDGETS FOR THE SECOND AND THIRD YEAR OF THE REPUBLIC
OF CHINA (1913 AND 1914)

Provinces or Territories	1913		1914	
	Revenues	Expenditures	Revenues	Expenditures
Anhui	\$1,246,933	\$2,253,815	\$1,239,864	\$872,100
Chekiang	2,058,452	2,339,805	1,936,911	1,959,394
Chihli	1,092,150	5,546,938	3,864,651	2,154,119
Fengtien			5,271,459	4,224,306
Fukien	891,203	1,193,519	891,621	826,940
Heilungkiang	1,403,311	1,504,356	223,509	254,269
Honan	3,292,090	7,396,738	2,308,250	1,242,958
Hunan	248,493	1,131,360	847,796	1,424,519
Hupei	2,115,677	2,959,048	777,670	1,915,275
Kangsu	808,122	1,691,000	679,395	453,786
Kiangsi	1,547,288	3,008,038	1,708,339	1,708,339
Kiangsu	4,155,739	8,529,778	3,125,246	3,125,246
Kirin		2,270,332	2,971,285	407,709
Kuangsi	1,017,251	830,899	141,029	87,934
Kuangtung	3,580,625		4,617,827	2,642,435
Kweichow	610,159	579,199	153,554	394,852
Shansi	2,401,241	3,511,632	1,492,774	2,336,064
Shantung	1,261,508	1,403,172	1,778,675	1,778,675
Shensi	1,544,550	4,433,024	691,176	384,279
Sinkiang	1,004,325	259,428	1,057,582	181,524
Szechuan	6,306,379	6,306,379	1,077,397	1,077,397
Yunnan	1,736,215	1,778,154	1,643,322	2,868,411
Chahar	70,457	53,923		
Jehol	260,047	339,326		
Metropolitan District	16,530			
Total	\$38,668,745	\$59,319,863	\$38,499,332	\$32,320,531

(The above budgets were authorized by the respective provincial assemblies and a duplicate copy was sent to the Ministry of Finance for reference.)

NOTE.—The total revenues and expenditures of all the provinces and territories for 1916 as shown in the self-government budgets of that year were \$27,376,516 and \$18,830,996 respectively. There were no provincial and territorial self-government budgets in 1915. Owing to the unsettled political condition of the Republic, the more recent data are also not available.

(Adapted from S. Y. Chia, *op. cit.*, vol. i, pp. 128-133.)

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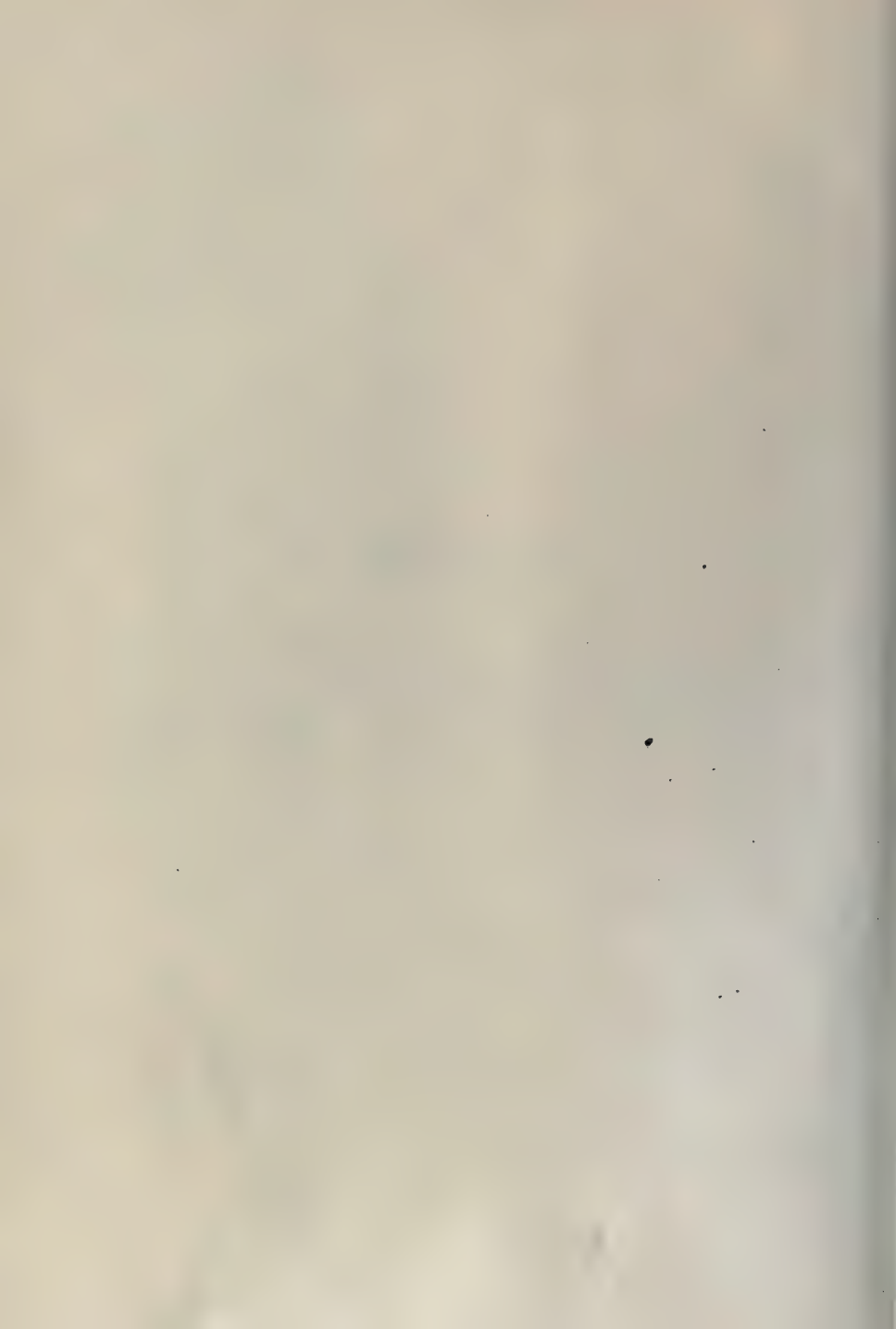
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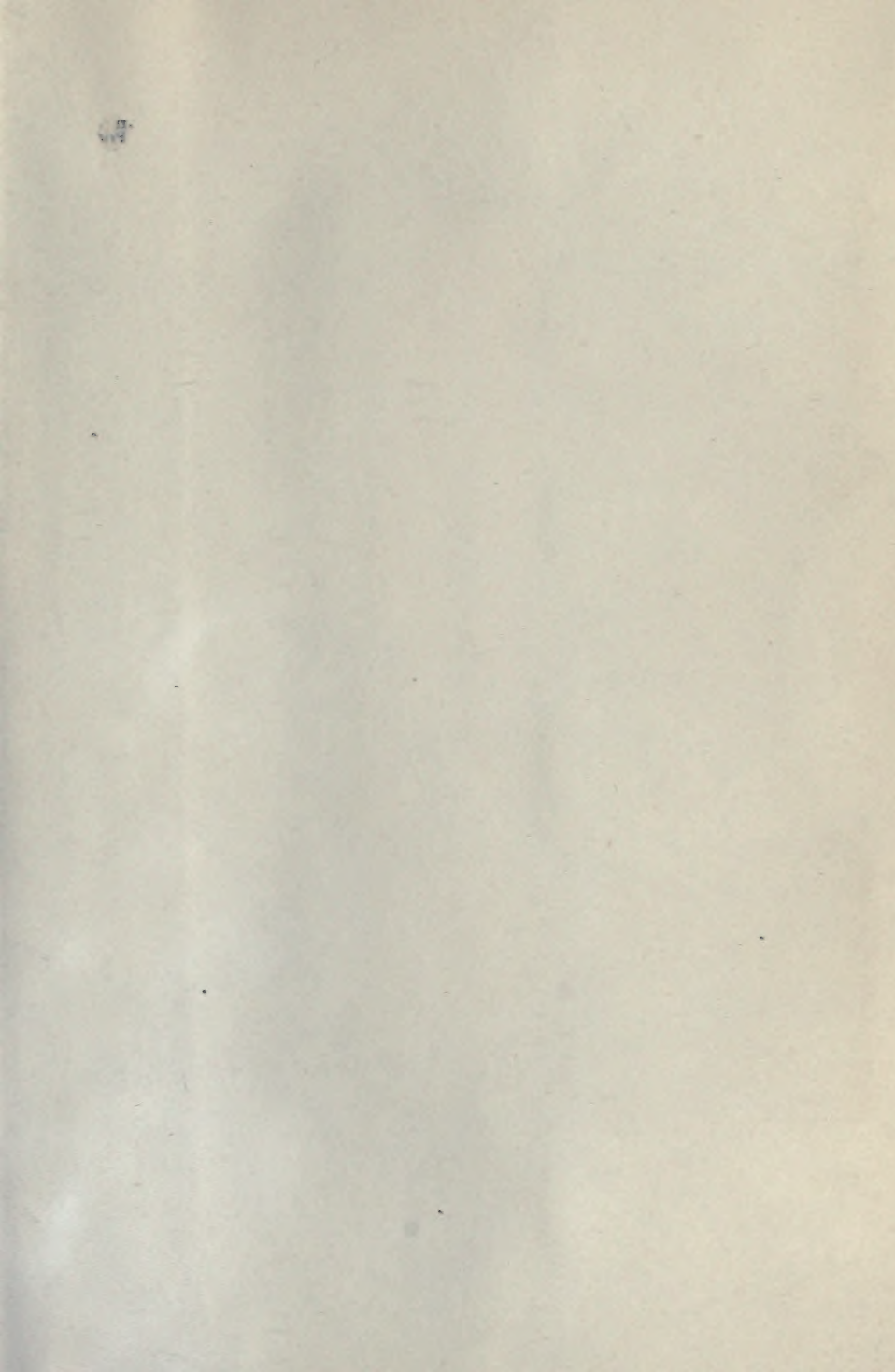
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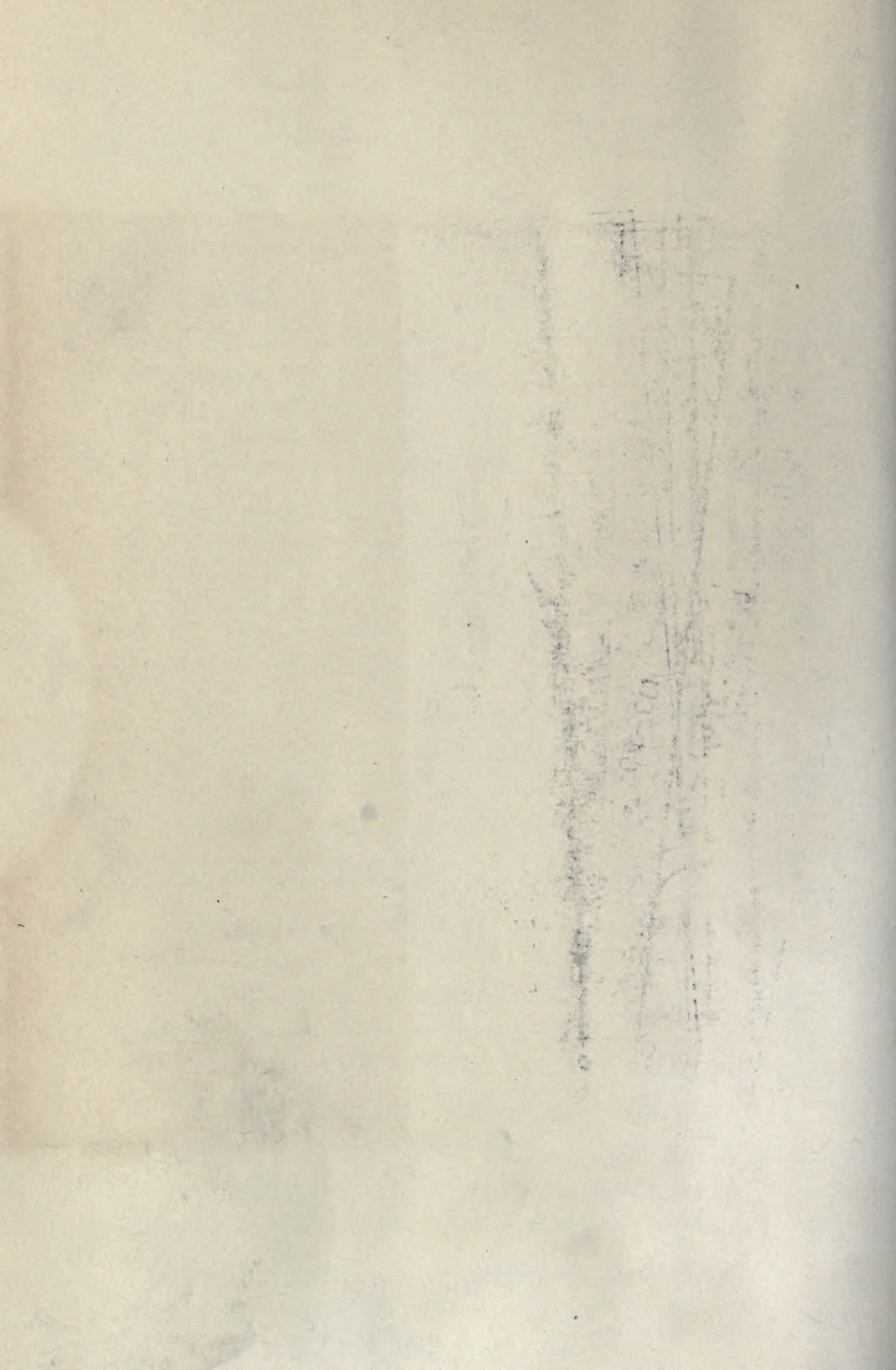
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